85-1060

No. .

Supreme Court, U.S.
FILED
DEC 18 1985
JOSEPH F. SPANIOL, JR.
CLERK

In the
Supreme Court of the United States.

OCTOBER TERM, 1985.

RAYTHEON COMPANY,
PETITIONER,

v.

CVD, INCORPORATED, ROBERT DONADIO AND
JOSEPH CONNOLLY,
RESPONDENTS.

Petition for Writ of Certiorari to the United States Court of Appeals for the First Circuit.

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December 18, 1985

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153 pp

Rule 28.1 Statement

Raytheon Company has one subsidiary which is not wholly-owned named New Japan Radio Company.

Questions Presented.

I. Whether the holding that an employer's willingness to seek judicial resolution of a trade secrets dispute with resigning employees can constitute an antitrust violation, conflicts with this Court's decisions protecting the free right of access to courts under the *Noerr-Pennington* doctrine?

II. What standard of conduct constitutes a "sham" in the exercise of the First Amendment right of access to the courts sufficient to eliminate the antitrust exemption of the *Noerr-Pennington* doctrine?

III. Did the failure of the Court of Appeals to make an independent judgment that there was clear and convincing evidence of knowledge of the absence of trade secrets conflict with this Court's standard of *de novo* review required to protect challenged First Amendment rights of access to the Courts?

IV. Should a new cause of action under the antitrust laws arising out of the settlement of a bad faith claim of protection under state law for trade secrets, between a high technology manufacturer and resigning employees, be predicated on cases involving fraud on the United States Patent Office?

V. Can an employee appropriate its employer's technology under a voluntarily negotiated trade secret license agreement and then subsequently claim that the employer has violated Section One of the Sherman Act because a jury may find that the employer lacked a good faith belief that it had trade secrets?

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Petition for Writ of Certiorari to the United States Court of Appeals for the First Circuit.

Opinion Below.

The opinion of the court of appeals was issued on July 30, 1985 and is reported *sub nom*, *CVD, Incorporated* v. *Raytheon Company*, 769 F.2d 842 (1st Cir. 1985). The opinion was amended after rehearing by order of the court dated September 23, 1985. The amendment is set forth in Appendix B, at 31a. There were no reported decisions from the United States District Court for Massachusetts. The unpublished opinion from that court denying Raytheon's motion for judgment n.o.v. and for a new trial are set forth in Appendix C, at pp. 32a-34a.

Jurisdiction.

The Judgment of the Court of Appeals for the First Circuit first was entered on July 30, 1985, affirming an amended district court judgment, entered July 31, 1984 for the respondent CVD, Incorporated in the amount of $3,180.00 and attorneys fees of $247,269.32. This represented a tripling of a jury verdict of $1,060.00 for the respondent and allowance of attorney fees under the Sherman Act, 15 U.S.C. 1, 2, and Section 4 of the Clayton Act, 15 U.S.C. 15. Raytheon and CVD, Incorporated both timely petitioned for rehearing.

By order dated September 23, 1985, Raytheon's petition (including a request for rehearing *en banc*) was denied and the court amended its judgment to allow the respondents their costs and attorneys fees on appeal in that the original opinion required each party to bear its own costs (App. D. 35a).* An amended judgment was entered on September 23, 1985 (App. E. 36a).

The jurisdiction of this Court is invoked under 28 U.S.C. § 1254(1).

Statutes Involved.

CONSTITUTION OF THE UNITED STATES.
First Amendment.

Congress shall make no law respecting an establishment of religion, or prohibiting the free exercise thereof; or abridging the freedom of speech, or of the press; or the right of the people peaceably to assemble, and to petition the Government for a redress of grievances.

*References in this petition are as follows: App. is the appendix to this petition; Tr. is the trial transcript in the record appendix filed in the Court of Appeals; E. is the exhibit record appendix; and P. is the pleading record appendix.

SHERMAN ACT.

Section One, 15 U.S.C. 1.

Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal. Every person who shall make any contract or engage in any combination or conspiracy hereby declared to be illegal shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court. (As amended through Dec. 12, 1975, Pub.L. 94-145, Section 2, 89 Stat. 801).

Section Two, 15 U.S.C. 2.

Every person who shall monopolize, or attempt to monopolize; or combine or conspire with any other person or persons, to monopolize any part of the trade or commerce among the several States, or with foreign nations, shall be deemed guilty of a felony, and, on conviction thereof, shall be punished by fine not exceeding one million dollars if a corporation, or, if any other person, one hundred thousand dollars, or by imprisonment not exceeding three years, or by both said punishments, in the discretion of the court. (As amended Dec. 21, 1974, Pub.L. 93-528, Section 3, 88 Stat. 1708.)

Statement of the Case.

A. *Jurisdiction in the United States District Court.*

The respondents (CVD, Incorporated, Robert Donadio and Joseph Connolly) commenced this action in the United States District Court for the District of Massachusetts on August 28, 1981, claiming that a license agreement they had voluntarily entered for the use of Raytheon Company's trade secrets violated Section 1 of the Sherman Act by being an unreasonable "restraint of trade," and that by the agreement, Raytheon "attempted to monopolize" claimed markets in violation of Section 2 of the Sherman Act. The negotiation of this single license agreement is the sole basis of federal jurisdiction because there was no diversity of citizenship and all other claims and counterclaims arose under state law.

B. *Statement of Facts.*

Raytheon Company (Raytheon), is a domestic corporation with headquarters in Massachusetts. A significant portion of its business is the manufacture of materials and equipment for sophisticated electronic uses (Tr. 5, 7-8).

Robert Donadio and Joseph Connolly (Donadio and Connolly) are former Raytheon employees who worked in the Raytheon Research Division Advanced Materials Department (Tr. 168-170, 1026-1027). While in the course of their employment at Raytheon they became knowledgeable about Raytheon's developmental work for the manufacture of two chemical compounds with special infrared optical qualities: zinc sulfide and zinc selenide. The dispute in this case arose when Donadio and Connolly set out to form a Massachusetts corporation called CVD Incorporated (CVD) to manufacture these materials themselves. They had employment agreements with Raytheon to protect proprietary and confidential information.

The dispute was seemingly resolved by a settlement agreement between Raytheon, Donadio and Connolly in which Raytheon licensed trade secrets to Donadio and Connolly in exchange for the payment of royalties (E. 256-275). Provision was made for renegotiation for any inequitable circumstances (E. 275).

The trade secrets related to the equipment developed by Raytheon for the manufacture of the two chemical compounds.

Raytheon had started its research work in the early 1960's, when Dr. James Pappis, one of the world's leading material scientists and manager of Raytheon's Advanced Materials Department, perceived the need for optical materials that would transmit light in the far infrared band (Tr. 517). Such materials would have a variety of military and commercial uses, including the nose cone on heat-seeking missiles, tank windows providing night vision and lenses on high-powered carbon dioxide lasers (Tr. 515; E. 565).

Dr. Pappis began experimentation with materials and equipment for these purposes in early 1960 (Tr. 2475). By 1979, Dr. Pappis had developed a highly complex system comprised generally of a high vacuum furnace, gas delivery systems, distribution manifolds, gas injectors, exhaust systems, scrubbers and electronic controls. With these facilities of its own design, Raytheon was able to manufacture high quality optical zinc sulfide and zinc selenide of a thickness, plate-size and purity never before achieved in the world (Tr. 528, 546).

During the development work, the United States Air Force became interested in Dr. Pappis' experimentation (Tr. 2498). The Air Force and later the Army contracted from time to time for sample materials and for reports on the feasibility of commercial production of zinc sulfide and zinc selenide for defense purposes. The United States, however, at no time paid for any of the equipment or the experimental work. Raytheon spent in excess of $7,000,000 of its own company funds to develop the equipment (Tr. 2541).

Zinc sulfide and zinc selenide have a yellow hue. Raytheon, prior to October 1979, experimented with techniques to remove the yellowish cast and make the material essentially colorless which added to its sophisticated uses. By October 1979, Raytheon had figured out how to accomplish this result consistently with sulfide. Donadio learned about the process from a fellow Raytheon employee (Tr. 870, 1704, 2070-2072). He acknowledged that he was to keep it confidential (Tr. 440).

The work of Raytheon's Research Division and Advanced Materials Department is highly confidential. Its facilities are subject to security checks by the Defense Department (Tr. 142-144). Both Donadio and Connolly signed agreements at the time of their employment recognizing their obligation to keep their work confidential (E. 1, 369). Neither Donadio nor Connolly had experience with the kinds of equipment used by Raytheon or with the production of these materials before their employment by Raytheon. Donadio became a principal investigator on certain aspects of the development of the materials (Tr. 244-245) and in the 1970's became more involved in the business operation and commercial sales (Tr. 542). Connolly, under Pappis' direction, worked on various components of the equipment (Tr. 1028). From time to time during their employment, Donadio and Connolly each acknowledged that Raytheon had trade secrets and proprietary information in the manufacture of zinc sulfide and zinc selenide (Tr. 523-524; E. 1, 369).

By October 1979, Raytheon, because of its long term research work was the only company that could produce thick, high optical quality zinc sulfide and selenide (Tr. 528, 546). A number of companies inquired of Raytheon whether it would license its technology (E. 371; Tr. 2764-2765).

It was also in October 1979, after Raytheon had finally developed a working, commercial system for manufacturing zinc sulfide and zinc selenide and achieved colorless material,

that Donadio and Connolly advised Dr. Pappis that they intended to leave Raytheon's employ and start a company to make zinc sulfide and selenide using Raytheon's techniques (Tr. 328-329). Dr. Pappis pointed out that they had signed agreements to preserve the confidential nature of the work they did and suggested that they discuss the matter with Raytheon's lawyers (Tr. 2831).

From October 1979 until February 15, 1980, Donadio, Connolly and their attorney, Jerry Cohen, negotiated with Raytheon to resolve the issues raised by the employment agreements, the prospective business and the use of proprietary information (Tr. 344-345, 648). The dispute focused on the extent of the disclosure of the manufacturing system in reports by Raytheon to the United States Army and Air Force (Tr. 331, 1044). Donadio himself had written some of the reports (Tr. 618-627, 621). Donadio and Cohen contended in the negotiating sessions that while Raytheon undoubtedly had trade secrets in the process, many if not all had been disclosed in the reports (Tr. 331, 1044, 1812). Raytheon's lawyer and Dr. Pappis countered that there were critical components that were never mentioned in the reports. Pappis enumerated seven such components (Tr. 1826, 2684-2694). After discussion with counsel, Donadio and Connolly agreed to go ahead with the license (Tr. 1828), and the final terms of a settlement were worked out.

Raytheon had previously advised them that if the parties could not reach agreement, Raytheon would seek a ruling from the court as to the nature, extent and existence of trade secrets (Tr. 89, 331-332).

On February 15, 1980, with full knowledge of the terms of the license, Donadio (individually and for CVD) and Connolly voluntarily and of their own free will executed the agreement. They intended to be bound by it (Tr. 679, 1621-1623). They acknowledged that Raytheon had trade secrets. They agreed

that a preliminary clause in the agreement stating that Raytheon possessed trade secrets and other valuable information and inventions useful in the manufacture of the materials was true (Tr. 676; E. 256).

The settlement agreement was in the form of a license of all Raytheon trade secrets relating to the manufacture of zinc sulfide and zinc selenide (E. 256), and an accompanying side letter. At first the letter only addressed the issue of prospective reduction of royalty rates, but, at the request of counsel for Donadio and Connolly, it was broadened to provide for full renegotiation at no cost, if Donadio and Connolly encountered any situation which they felt made the license inequitable (Tr. 669-672; E. 275).

With the license agreement from Raytheon secured, CVD was able to fabricate a system and commence production of the materials within a few months (Tr. 379).

With some dimensional changes, CVD's equipment was a photocopy of the Raytheon system (Tr. 1272). A leading expert in the process, known as chemical vapor deposition, examined both the Raytheon and CVD systems and observed that they were both almost identical (Tr. 1272-1275). He also concluded that Raytheon's process licensed to CVD gave both companies a competitive advantage over others who did not know of details in the system (Tr. 1248).

CVD used the license to obtain financing and benefit its marketing position (Tr. 1711-1713, 1795, 2377). CVD and its attorneys wrote its lending bank that the license was valid, in full force and effect and that CVD would abide by the terms of the license (E. 566, 567). CVD wrote the United States Army that Raytheon had licensed CVD to use its proprietary process (Tr. 384). CVD also used the Raytheon process to make clear zinc sulfide. They exceeded the financial projections of their own business plans and achieved substantial sales (Tr. 1798-1799). Their own complaint claims they achieved 35% of Raytheon's sales of zinc selenide (P. 17).

At no time did CVD seek to renegotiate the license agreement under the provisions of the letter agreement with Raytheon (Tr. 160-161).

Approximately a year after they began production, on August 28, 1981, Donadio and Connolly brought this action in the United States District Court for Massachusetts, claiming they had entered the agreement under duress or coercion because Raytheon had threatened litigation, that Raytheon had fraudulently represented it had trade secrets and that Raytheon had violated the antitrust laws by its conduct of price squeezes, price manipulation and demanding an unreasonably high royalty rate (P. 14-18).

The case was tried to a jury between March 5, 1984 and April 20, 1984. The jury awarded damages of $1,060, the amount paid by CVD to its attorney for his services in negotiating the license agreement (Tr. 999-1000). The district court entered judgment for CVD and ordered the dismissal of Raytheon's counterclaim for royalties due under the license and for damages for its breach.

Raytheon moved for a new trial and for judgment notwithstanding the verdict on the grounds that the verdict was manifestly against the weight of the evidence, that the evidence of misappropriation of trade secrets was overwhelming and that the antitrust claim was frivolous (P. 236-239). It opposed the award of attorneys fees on that basis and because there were trade secrets found by the trial judge at least in respect to the manufacture of colorless sulfide.

The court entered an amended judgment, tripling the jury's findings of $1,060 and awarding attorneys fees in the amount of $247,269.32 (P. 240; App. F at 37a). The court declared the license agreement invalid and unenforceable, that there was no obligation to pay royalties to Raytheon under the license, and as of January 1980, Raytheon had no trade secrets with respect to chemical vapor deposition of zinc sulfide and selenide (App. F at 38a).

Raytheon appealed to the Court of Appeals for the First Circuit, whose opinion is reproduced at Appendix A (pp. 1a-30a). Rehearing was denied (App. G. at 39a) and Raytheon now petitions this Court for a writ of certiorari.

Reasons for Granting the Writ.

In this case for the first time, a federal court of appeals has held that the singular statement by a company that it possessed trade secrets and was willing to have their validity determined in court can be the basis of liability under the antitrust laws. Although the First Circuit recognized that "[t]his case presents a difficult question pertaining to the interaction of the federal antitrust laws and state trade secret law" (App. at 7a), the decision below requires review by this Court for the following reasons:

First, the court of appeals decision conflicts with decisions in other federal circuits that have determined that the "sham exception" to the *Noerr-Pennington* doctrine requires more than the threat of or commencement of a single lawsuit without probable cause.

Second, the holding that the mere assertion of trade secrets litigation in bad faith violates the antitrust laws conflicts with this Court's standard that a baseless law suit means that there are not issues of material fact for consideration by the Court.

Third, the court of appeals failure independently to review the record offends the First Amendment right of access to the courts because it ignores this Court's holding in *Bose Corporation* v. *Consumer's Union of the United States*.

Fourth, this Court should determine the question of whether a private dispute over trade secrets under state law can be equated with fraud on the Patent Office so as to constitute a federal antitrust violation.

Fifth, this Court should determine whether Section One of the Sherman Act applies to a voluntary technology license agreement that settled a dispute out of court between two parties, that was economically reasonable as a matter of law, and that in fact promoted competition.

These issues of trade secret and antitrust law merit this Court's attention now in order to establish guidelines for industry to make necessary business decisions for the protection of intellectual property and to promote the licensing of trade secrets, and to provide standards for the lower courts so they may fairly and uniformly afford constitutional rights in license negotiations in order to encourage the settlement of disputes out of court.

I. The Decision of the Court of Appeals for the First Circuit Is in Direct Conflict with Decisions of Other Courts of Appeal as to Whether a Single Law Suit Is within the "Sham Exception" to the Noerr-Pennington Exemption for Antitrust Liability.

A. *Raytheon Had a First Amendment Right of Access to the Court.*

Raytheon had a First Amendment right in a dispute over trade secrets to claim access to the courts if the dispute could not be resolved without incurring antitrust liability. This right is integral to the right to petition the government described by this Court in *Eastern Railroad President Conference* v. *Noerr Motor Freight*, 365 U.S. 127 (1961) and *United Mine Workers* v. *Pennington*, 381 U.S. 657 (1965). This Court later held that "the right of petition extends to all departments of the government. The right of access to the courts is indeed but one aspect of the right to petition" and is "protected by the First

Amendment." *California Motor Transport* v. *Trucking Unlimited*, 404 U.S. 508, 30 L.Ed.2d 642, at 646, 648 (1972).

In *Bill Johnson's Restaurants, Inc.* v. *N.L.R.B.*, 461 U.S. 731, 76 L.Ed.2d 277 at 288 (1983), the Court explained its holding in *California Motor Transport*:

> [W]e recognized that the right of access to the courts is an aspect of the First Amendment right to petition the government for redress of grievances. Accordingly, we construed the antitrust laws as not prohibiting the filing of a lawsuit, regardless of the plaintiff's anticompetitive intent or purpose in doing so, unless the suit was a 'mere sham' filed for harassment purposes.

The United States Court of Appeals for the First Circuit recognized that a dispute arose between Raytheon and it two employees, Donadio and Connolly, over the extent Raytheon may have disclosed trade secrets in reports to the United States. The court said: "Although Donadio disputed Reynold's [a Raytheon lawyer] assertion that trade secrets were involved, Reynolds threatened to sue if they began to manufacture ZnS/cvd or ZnSe/cvd without a license from Raytheon." (App. 4a.) The court then said: "This case differs from the *Walker Process* (*Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965)) line of cases in that Raytheon did not actually initiate litigation against the plaintiffs." (App. 11a.) The mere threat of litigation must be afforded no less protection as the exercise of the right of access to the courts than actual litigation. *Coastal States Marketing, Inc.* v. *Hunt*, 694 F.2d 1358, 1367, *rehearing denied*, 699 F.2d 1163 (5th Cir. 1983) ("Given that petitioning immunity protects joint litigation, it would be absurd to hold that it does not protect

those acts reasonably and normally attendant upon effective litigation.").

The analysis by the First Circuit Court of Appeals thus penalized Raytheon for telling two employees that if they could not amicably resolve the dispute, Raytheon would have to request a court to adjudicate whether Raytheon had trade secrets, and if so, the extent of the obligations of Donadio and Connolly under their employment agreements. Raytheon did not even commence litigation. Yet the court of appeals concluded that Raytheon's asserted right of access to the courts constitutes a predatory practice under the antitrust laws (App. at 20a).

This conclusion, and the result in this case, is wholly unsupported by this Court's still unclear definition of the "sham exception" applied to adjudicatory proceedings and directly conflicts with recent interpretations in other federal circuits.

B. *The Supreme Court's View of Sham Litigation.*

To result in antitrust violations as "adapted to the adjudicatory process," the nature of a party's conduct would have to be an "illegal and reprehensible practice which may corrupt the administrative or judicial process." *California Motor Transport* v. *Trucking Unlimited*, 404 U.S. 508, 30 L.Ed.2d 642 at 646, 649, 92 S.Ct. 609 (1972). Examples mentioned by the Court included fraud, corruption, perjury, conspiracy, and bribery. But as noted by the early commentators, the Court "did not fully articulate the range of actions in the course of adjudication that would be considered abusive." Note, "Limiting the Antitrust Immunity for Concerted Attempts to Influence Courts and Adjudicatory Agencies: Analogies to Malicious Prosecution and Abuse of Process," 86 Harv. L. Rev. 715 (1973).

Thirteen years ago when *California Motor Transport* was decided, the Court recognized that it "may be a difficult line to discern and draw." 404 U.S. at 513. Despite several further opinions by this Court, it is still an open question as to what actions or courses of conduct involving a business's right to invoke judicial solutions will cross that "difficult line" and be deemed abusive so as to result in antitrust liability. This present case affords the Court the opportunity to provide a definition of that boundary.

The *Noerr-Pennington* doctrine of exemption from Sherman Act liability evolved from concerted actions amongst competitors directed against other competitors. *California Motor Transport, supra*, at 656. "Joint efforts to influence public officials do not violate the antitrust laws even though intended to eliminate competition. Such conduct is not illegal either standing alone or as part of a broader scheme, itself violative of the Sherman Act." *United Mineworkers* v. *Pennington*, *supra*, 381 U.S. at 670.

The issue of whether a single court action (or the mere invocation of the possibility of court action) addressing the principal subject matter in dispute with a single prospective competitor can be precluded by the Sherman Act, unless it is part of an overall scheme or course of conduct otherwise actionable under the anti-trust laws, has not been directly addressed by this Court and has provoked great uncertainty. As recently noted by the Court of Appeals for the Sixth Circuit:

> Whether a single legal proceeding, even if found meritless, may be considered a basis of a "sham" exception in light of *California Transport* is not altogether clear.

Cleveland v. *Cleveland Elec. Illuminating Co.*, 734 F.2d 1157, 1162-1163 (6th Cir.), *cert. denied*, 105 S.Ct. 253 (1984).

In *California Motor Transport*, the Court made clear that the First Amendment exemption from antitrust liability would not be defeated by the "sham" exception unless the conduct was "reprehensible," corrupting or abusive of the adjudicatory processes. The actual holding was that, where parties act in concert to file and maintain numerous state and federal proceedings, "with or without probable cause, and regardless of the merits of the cases," with the intent to harass and deprive competitors of their rights to "free and unlimited access," a cause of action was stated under the antitrust laws. 30 L.Ed.2d at 647, 649. Such meritless action would be a "sham" attempt to use the right of access, and thus would not be exempt under the First Amendment right to petition. Recognizing that in the adjudicatory process, opponents often denigrate each other's positions, the Court noted that "one claim, which a court or agency may think baseless, may go unnoticed; but a pattern of baseless, repetitive claims may emerge which leads the factfinder to conclude that the administrative and judicial processes have been abused." *California Motor Transport*, *supra*, 30 L.Ed.2d at 648.

In *Otter Tail Power* v. *United States*, 410 U.S. 366, 35 L.Ed.2d 359, 93 S.Ct. 1022, *reh. den.*, 411 U.S. 910 (1973), the Court determined that Otter Tail might have antitrust liability based on its policy of sponsoring "repetitive lawsuits carrying the trademark of insubstantial claims" because such conduct may be within the "sham exception." Otter Tail had instituted litigation against four towns that had the immediate and continuing effect of precluding their establishment of competing municipal electric systems because bond counsel could not render the necessary opinions required for revenue bonds while the litigation was ongoing. The court indicated this possible liability with no reference to the municipalities' rights to free access.

The opinion is clear, however, that the possibility of losing the *Noerr-Pennington* exemption embodied in *California Motor Transport* was because of the repetitive pressing of insubstantial claims as part of an overall scheme to limit competition, rather than seeking vindication of the actual issues presented in each case before the courts. This recognition of an ulterior purpose and scheme, reaffirmed the Court's rationale in *California Motor Transport*, that it was not the anticompetitive purpose sought from the litigation that would strip litigants of their First Amendment protection, but rather the manner in which the litigation was pursued. 404 U.S. at 512 ("proceedings and actions with or without probable cause and regardless of the merits of the cases.").

In *Vendo Company* v. *Lektro-Vend Corporation*, 433 U.S. 623, 53 L.Ed.2d 1009, 97 S.Ct. 2881 (1977), a divided court addressed the application of the Anti-Injunction Statute to state court litigation sought to be restrained under Section 16 of the Clayton Act. In respect to the extent of the "sham exception" to the exemption from antitrust liability described in *California Motor Transport* and *Otter Tail*, the plurality noted:

> Those cases together may be cited for the proposition that repetitive, sham litigation in state courts may constitute an antitrust violation and that an injunction may lie to enjoin future state-court litigation. . . . [N]othing in our opinion today prevents a federal court in the proper exercise of its jurisdiction to enjoin the commencement of *additional state court proceedings if it concludes from the course and outcome* of the first one that such proceedings would constitute a violation of the antitrust laws. . . . This distinction is totally consistent with the realization that the true bonafides of the initial state-court litigation is often not apparent. . . .

53 L.Ed.2d n.6 at 1019-1020 (emphasis added).

The concurring opinion by Justice Blackmun with the Chief Justice (making a majority), would preclude an injunction against state court proceedings unless "those proceedings are themselves part of a pattern of baseless, repetitive claims that are being used as an anticompetitive device. . . ." *Id.* at 1025.

C. *The Conflict Among the Courts of Appeal.*

Echoing the uncertainty cited by the Sixth Circuit in *Cleveland* v. *Cleveland Illuminating Company*, *supra*, the Fifth Circuit has noted that, "The Supreme Court has never defined with precision the standard for determining when litigation is a sham." *Coastal States Marketing Inc.* v. *Hunt*, 694 F.2d 1358, 1371, *rehearing denied*, 699 F.2d 1163 (5th Cir. 1983).

Absent clear guidelines, several courts of appeal have held that *Noerr-Pennington* immunity from antitrust liability can be based on a single litigation. *MCI Communications* v. *American Tel. & Tel. Co.*, 708 F.2d 1081, 1115 (7th Cir. 1983), *cert. denied*, 464 U.S. 891 ("We therefore find that the bringing of baseless claims — even the undertaking of a single sham state court lawsuit — is devoid of the constitutional significance that warrants immunity from the antitrust laws."). *Clipper Exxpress* v. *Rocky Mountain Motor Tariff Bureau*, 690 F.2d 1240, 1254 (9th Cir. 1982), *cert. denied* 103 S.Ct. 1234 ("it is unnecessary to allege and prove more than the institution of a single suit or protest to invoke the sham exception.") *Feminist Women's Health Center* v. *Mohammad*, 586 F.2d 530, 543 n.6 (5th Cir. 1978), *cert. denied sub nom.*, *Palmer* v. *Feminist Women's Health Center*, 44 U.S. 924, 62 L.Ed.2d 180, 100 S.Ct. 262 (1979). It should be noted that at least the ninth circuit appears to have retrenched somewhat in more recent decisions. Thus, in *Omni Resource Development Corp.* v. *Conoco, Inc.*, 739 F.2d 1412, 1414 (9th Cir. 1984), the court

appeared to limit *Clipper Exxpress* to an example of a "pattern of fraudulent activity" and stated that: "When the antitrust plaintiff challenges one suit and not a pattern, a finding of sham requires not only that the suit is baseless, but also that it has other characteristics of grave abuse, such as being coupled with actions or effects external to the suit that are themselves anticompetitive."

In sharp conflict with these decisions are cases stating that a single suit, even when brought without probable cause, is not within the sham exception and thus, protected from antitrust liability. Most recently, the Eighth Circuit dismissed an antitrust claim premised on litigation and declared:

> Our review of the cases convinces us that the key to the sham exception is an improper interference with governmental processes. We think it is clear that the institution of a single lawsuit and a related appeal, which is the conduct that the defendants herein are charged with, does not give rise to a cause of action, under the antitrust laws absent allegations that the lawsuit involves serious misconduct similar to the access-barring abuses described in *California Motor*.

Razorback Ready Mix Concrete Co., Inc. v. *Weaver*, 761 F.2d 484, 487 (8th Cir. 1985).

Similar to the present case was the circumstance in *Hydro-Tech Corp.* v. *Sundstrand Corp.*, 673 F.2d 1171, 1172 (10th Cir. 1982) ("[W]e conclude that the prosecution of a lawsuit, albeit without probable cause and for an anticompetitive purpose, is activity protected by the first amendment and therefore immune from attack under the antitrust laws.") Also noting that, "the Supreme Court has not yet decided whether litigation

activity in the context of one lawsuit filed without probable cause, is conduct subject to the 'sham exception,'" the Tenth Circuit would not accept the proposition "that a mere absence of probable cause on the part of Sundstrand in instituting the misappropriation of trade secrets action against Hydro-Tech is sufficient to bring the present case within the 'sham exception' in the *Noerr-Pennington* rule." *Id.* at 1176. Rather, it more closely adhered to this Court's view in *California Transport* that a *sham* action must be abusive of the judicial processes. Accord, *Cleveland* v. *Cleveland Elec. Illuminating Co.*, 734 F.2d 1157, 1162 (6th Cir.) *cert. den.*, 105 S.Ct. 253 (1984). See also, *Litton Systems, Inc.* v. *American Tel. & Tel. Co.*, 700 F.2d 785, 811 n.38 (2d Cir.), *cert. denied*, 104 S.Ct. 984 (1983) (noting split amongst the federal circuits on "whether a single claim is sufficient to support application of the sham exception"), *Landmarks Holding Corp.* v. *Bermant*, 664 F.2d 891, 896 (2d Cir. 1981) (Sham exception should require "abuse of the administrative and judicial process through unethical lawyer conduct and repetitive filing of insubstantial claims. . .".), and *Hospital Building Company* v. *Trustees of Rex Hospital*, 691 F.2d 678, 688 (4th Cir. 1982) *cert. denied*, 104 S.Ct. 231 (1983) ("There is still a sham exception applicable to judicial proceedings, if such proceedings are baseless, repetitive and brought with the intent to abuse the judicial process.").

The need for this Court to provide guidance to the lower courts on this issue is apparent from the breadth of the circuits' conflicts and uncertain decisions. The First Circuit's opinion goes further. It holds that the single threat of one lawsuit in an employer-employee dispute is an antitrust predatory practice.

II. The Decision by the Court of Appeals that Litigation Threatened in Bad Faith Is Actionable Under the Antitrust Laws Conflicts with the Standard Proposed by this Court that a Lawsuit Is Not a "Sham" If There Are Questions of Material Fact.

Application of this Court's doctrine of the right of access to the courts as an integral component of the *Noerr-Pennington* exemption to *CVD* v. *Raytheon* strongly suggests the conclusion that the First Circuit's postulated antitrust cause of action based solely on the "threat of unfounded trade secrets" litigation simply does not have the required ingredients to deprive Raytheon of its First Amendment protection against antitrust liability. Every case that contributes to the conflict across the circuits involved culpable and abusive conduct that simply is not present here.

In this case, there simply was no fraudulent deception of an administrative or judicial forum, nor the commencement of a baseless lawsuit. If, however, contrary to this Court's premise in *California Transport* of repetitive or multifarious anticompetitive acts, it should now determine that a cause of action in antitrust can be premised on a single claim of access to the courts, the First Circuit's definition is insufficient and should not be allowed to stand. It is devoid of standards for the determination of whether Raytheon's claim to trade secrets was "unfounded" so that, if it had further acted by commencing suit, that suit could be deemed "baseless" and, thus, unprotected by *Noerr-Pennington*. The First Circuit's thesis is based on the jury's *post hoc* determination that there were no trade secrets, and *ipse dixit*, therefore, there was bad faith. See, App. at 12a, ("The proof as to the existence of trade secrets and . . . bad faith in asserting them . . . is necessarily intertwined.").

In order to protect the First Amendment right of access, the determination that litigation or proposed litigation was "unfounded," must be based on some objective recognized standard or rule of law. This need is apparent from the diverse standards discussed by the courts of appeal noted above. This Court has suggested just such a standard in its recent cases involving the free right of access. The instant action affords the opportunity for this Court to definitively articulate the standards to be applied in cases where access to the courts is challenged as unprotected because it is claimed to be within the "sham exception."

In *Bill Johnson's Restaurants, Inc.* v. *National Labor Relations Board*, 461 U.S. 731, 76 L.Ed.2d 277, 103 S.Ct. 2161 (1983), this Court applied its analysis of the First Amendment right to litigation that evolved in the antitrust cases to the circumstances of a labor dispute under the National Labor Relations Act.

In determining that the N.L.R.B. could enjoin the prosecution of "a baseless law suit with the intent of retaliating," this Court articulated for the first time the rule to be used in determining what might constitute conduct in an adjudicatory forum sufficient to restrict a party's First Amendment right to litigate. Noting that "baseless litigation is not immunized by the First Amendment right to petition," and relying on its antitrust analysis, the Court held that it would be an enjoinable offense "to prosecute a baseless lawsuit with the intent of retaliating against an employee for the exercise of rights protected by [the NLRA]." *Id.* at 290.

This Court then set forth the means to evaluate whether a questioned litigation was "lacking a reasonable basis" and concluded there would be no "sham" if a suit "raises genuine issues of material fact." *Id.* at 291.

By articulating this standard, the Court chose a criterion based on proven methods and judicial experience to provide

clear guidance to lower tribunals. It specifically noted that "the 'genuine issue' test is used for adjudging motions for summary judgment" and "is very close to the 'reasonable jury' rule applied on motions for directed verdict . . . [which [i]n the civil context, most courts treat . . . identically. . . ." *Id.* at 290, n.11.

The present case gives this Court the opportunity to determine that the same standard should be applied when a party's First Amendment right to invoke litigation is challenged in the antitrust context. It will help resolve and avoid further conflict amongst the circuits.

Application of this objective standard requires reversal of the decision below. When the First Circuit created an antitrust cause of action based on the "threat of unfounded trade secrets litigation" it neglected to prescribe any basis whatsoever for an objective determination of baseless conduct but relied only on the jury's *post hoc* determination of "bad faith" (P. 140). *See, Hydro-Tech. Corp.* v. *Sundstrand Corp., supra* at 1177. To have sustained the jury's verdict that Raytheon's claim of trade secrets was "unfounded" and, thus, its assertion of possible litigation was in "bad faith," required under the standard prescribed by this Court that there was no genuine issue of material fact in respect to the existence of trade secrets. This very determination of material fact was presented to the trial court at the close of the evidence on the CVD's "Motion for Directed Verdict on All Counts of the Defendant's Counterclaim" (P. 131). The trial judge ruled against CVD. As a matter of law, that ruling constituted a finding that there were material issues of fact as to whether or not Raytheon had trade secrets.

III. Because Raytheon Had a First Amendment Right of Access to the Courts, the Failure of the Court of Appeals Independently to Review the Record to Determine if There Was Clear and Convincing Evidence that There Were No Trade Secrets, Conflicts with this Court's Holding in *Bose Corporation* v. *Consumer's Union of the United States*.

In this case, there was both the assertion by Raytheon of its opinion it had trade secrets and its invocation of a right of access to the courts in the event the parties could not settle the dispute. *California Motor Transport* v. *Trucking Unlimited*, 404 U.S. 508, 30 L.Ed. 2d 642, 92 S.Ct. 609 (1972).

The court of appeals did recognize that this case involves what it termed "a difficult question" of balancing the antitrust laws with the constitutional right of free access to the courts and the public interest in favor of licensing. To accommodate these conflicting interests, the court required proof of knowing bad faith assertion of trade secrets by clear and convincing evidence (App. A at 7a, 10a).

Because, the claim under the antitrust laws impacts constitutional protection, it was the duty of the court of appeals, under *Bose Corporation* v. *Consumers Union of U.S., Inc.*, 466 U.S. 485, 80 L.Ed.2d 502, 104 S.Ct. 1949 (1984), independently to review the record and make its own judgment whether there was clear and convincing evidence that Raytheon *knew* in October, 1979 that it had no trade secrets. This the court did not do. Rather, the opinion below reveals that the court deferred entirely to the jury verdict. The court did not even cite *Bose Corporation* and it formulated the essential issue as follows:

> The question presented, therefore, is whether, after reviewing the evidence in the light most favorable to the plaintiffs, and drawing all reasonable infer-

> ences in their favor, there is sufficient evidence in the record to support the verdict.

(App. A at 6a). This formulation of the issue was reversible error because as this Court stated in *Bose Corporation*,

> The question whether the evidence in the record . . . is of the convincing clarity required to strip the utterance of First Amendment protection is not merely a question for the trier of fact. Judges, as expositors of the Constitution, must independently decide whether the evidence in the record is sufficient to cross the constitutional threshold that bars the entry of any judgment that is not supported by clear and convincing proof. . . .

80 L.Ed. 2d at 523.

Thus, this Court determined in *Bose Corporation* that findings of liability premised on the assertion of rights protected by the First Amendment, such as free access to the court, requires careful *de novo* appellate review of the whole record.

The court of appeals refused to make an independent review in stark conflict with this Court's prescription of constitutional protection. While articulating a standard of clear and convincing evidence, the court of appeals upheld the jury verdict on the basis of what "the jury could have found." The court inferred the absence of trade secrets from facts that had nothing whatsoever to do with what Raytheon claimed were trade secrets. The court of appeals, indeed, departed so far from the clear and convincing standard that it even referenced evidence it called "inconclusive." (App. A at 15a.)

Furthermore, it is clear that if the court of appeals had applied the correct standard of review, it could not have come to the conclusion that Raytheon's "bad faith" was proven by the clear and convincing evidence which the Constitution requires. The fact is that there was no evidence that Raytheon knew it had no trade secrets in October, 1979. To the contrary, there was uncontradicted evidence that critical components of Raytheon's system were not known in the industry generally, that Raytheon had not disclosed those details and that as a result, Raytheon had a competitive advantage (Tr. 1249-1252, 3183). The court of appeals conceded that "It is undisputed that, until CVD's formation, Raytheon was the only company in the world to produce for commercial sale zinc selenide or zinc sulfide by chemical vapor deposition." (App. A. at 11a).

When the court of appeals refuses to consider countervailing evidence, and instead cumulates all possible inferences in favor of the party who prevailed before the jury, there is no deference provided to the vital First Amendment rights at issue, and the Court neglects its obligation to make an independent review of the whole record mandated by *Bose*, *supra*, 104 S.Ct. 1949, 1958. *Tavoulareas* v. *Piro*, 759 F.2d 90, 147 (D.C. Cir. 1985):

> This approach renders the independent appellate review promised by *Bose* a mirage. Independent review of the record devolves into review of the pool of pre-selected inferences that cut against the defendant. . . . The majority's method of analyzing the evidence and permissible inferences conflicts with Supreme Court decisions requiring an independent review of the record.

(Wright, J., dissenting), a majority opinion vacated *en banc*, 763 F.2d 1472, 1481 (D.C. Cir. 1985).

Several critical examples make manifest that the court of appeals failure to review independently the evidence produced an injustice. First, it was undisputed that Raytheon had spent virtually twenty years and millions of dollars of company funds developing the methods and facilities capable of commercially producing a new level and quality of the compounds (App. at 11a; Tr. 517, 523, 2541). As a matter of law, this fact tends to prove trade secrets exist (App. at 12a). It was also undisputed that at least five companies had considered obtaining licenses from Raytheon (Tr. 532, 2764-2765; E. 371) before Donadio and Connolly sought to appropriate the technology on the premise that Raytheon's still bona fide trade secrets had been publicly disclosed so that they could be freely used by others (Tr. 331, 1044, 1812).

Secondly, as to whether the information present in the government reports could permit someone outside of Raytheon to assemble the equipment and replicate the quality of Raytheon's product, three nonparty experts testified that it could not be done absent extensive research and development (Tr. 1249-1252, 3058, 3083, 3182-3183).

Third, contrary to the jury's findings, Donadio admitted at trial that he knew there were trade secrets: "I certainly realized they had trade secrets" (Tr. 524). He admitted Raytheon's process was "company proprietary" (Tr. 525). In the license agreement, Donadio admitted that "[Raytheon] possesses valuable trade secrets and other valuable information and inventions useful in the manufacture of [ZnSe and ZnS by CVD]." (Tr. 676, 677-683). Even after he formed CVD, he represented to the government that his was the only company licensed to use "Raytheon['s] proprietary chemical vapor deposition process." (E. 384.)

IV. The Application of the Federal Law Doctrine of Fraud on the Patent Office by the Court of Appeals to State Trade Secret Claims is a Novel and Important Question of Federal Antitrust Law which Should Be Settled by this Court Because It Offends this Court's Policies on Trade Secret Protection Set Forth in *Kewanee Oil Co.* v. *Bicron Corporation*.

The court of appeals applied to trade secrets the doctrine of *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), involving prosecution of patent infringement cases knowing that the patent was fraudulently obtained and with an intent to restrain competition or monopolize. The court of appeals acknowledged it was creating a new cause of action comprised of the assertion of trade secret claims in bad faith and noted "it descends directly from the *Walker Process* case and its progeny." (App. A. at 20a). In fashioning this cause of action the First Circuit relied predominantly on *A&E Plastik Pak Co.* v. *Monsanto Company*, 396 F.2d 710 (9th Cir. 1968), a decision whose principal vitality has been cast in doubt by this Court's recent decision in *Mitsubishi Motors Corp.* v. *Soler Chrysler-Plymouth, Inc.*, 473 U.S. _____, 87 L.Ed.2d 444, 458, 105 S.Ct. 3346 (1985). *A&E Plastik* held only that the determination of whether a contract is valid under the antitrust laws is nonarbitrable. Moreover, the antitrust allegation involved a know-how license for an expired patent and Monsanto's repudiation of the parties' agreement which required that A&E would not compete with Monsanto.

Walker Process (and *A&E Plastik*) were decided well before this Court's decision in *California Motor Transport*. The conduct of committing a willful fraud on the quasi-adjudicatory Patent Office at issue in *Walker Process* is representative of the type of conduct suggested in *California Motor Transport*

that would be unprotected as a "sham": "illegal and reprehensible practices which . . . corrupt [or "abuse"] the administrative or judicial processes . . . may result in antitrust violations." 404 U.S. at 513. *Walker Process* also involved at least two proscribed actions, starting with the actual willful fraud on the Patent Office, followed by the subsequent maintenance of a baseless infringement suit. The "abusive" nature of the conduct in the infringement suit derives not only from the allegation that *Food Machinery* had knowingly procured a patent by fraud, but that it later commenced its action so late in the seventeen year patent life that it had to dismiss its own action after three months because the questioned patent expired.

Viewing *Walker Process* from the perspective of the *Noerr-Pennington* exemption applied to adjudicatory bodies shows that it functionally and logically fits in the mainstream of the "sham exception" and does not create nor define a special category of intellectual property "federal torts." A keystone of *Walker Process* was the Court's concern with a patentee seeking a wrongful competitive advantage by perpetrating an actual fraud on a governmental body whose very proper functioning depended upon the honesty and candor of its applicants. This initial fraud on the agency was then coupled with a series of actions, including the wrongful commencement of litigation, to execute the overall anticompetitive design offensive to the antitrust laws. 382 U.S. at 177.

After *California Motor Transport* this Court appears to have limited *Walker Process* to just such a role in the constitutional balance between the right to free access and the breadth of the antitrust laws. *Vendo Company* v. *Lektro-Vend Corporation*, 433 U.S. 623, 53 L.Ed.2d 1009 (1977). In his concurring opinion, Justice Blackmun properly characterized *Walker Process* as holding "only that the enforcement of a patent procured by fraud on the Patent Office could state a claim under

§ 2 of the Sherman Act, where the monopolistic acts alleged included use of the fraudulent patent through a course of action involving both threats of suit and prosecution of an infringement suit." *Id.* 1025 n.*.

There are compelling reasons independent of the "sham exception" issue why this Court should not allow *Walker Process* to be applied in trade secret cases like the present action. Unlike a patent which is governed by federal law, trade secret law varies from state to state. This Court has ruled that matters involving trade secret law are properly left for determination to the states. *Lear Inc.* v. *Adkins*, 395 U.S. 653, 23 L.Ed.2d 610 (1969), *Kewanee Oil Co.* v. *Bicron Corporation*, 416 U.S. 470, 40 L.Ed. 315 (1974). This Court has properly done so because whether a trade secret does or does not exist depends on a variety of factors which are essentially mixed issues of law and fact.

The United States patent laws provide a detailed statutory procedure for the filing with the patent office of specifications, drawings, models and an oath of the applicant that he is the original inventor. 35 U.S.C. §§ 111-115. The detailed statutory scheme provides a clear standard to determine if the applicant committed a fraud on the patent office.

In *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), when this Court reversed a dismissal of the case on the pleadings, it noted the special nature of a patent monopoly and held that enforcement of a patent procured by fraud on the Patent Office might violate section two of the Sherman Act. In *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986 (9th Cir. 1979) and 743 F.2d 1282 (9th Cir. 1984), there was, with other compelling proof, evidence that the patent owner told others that he knew the patent was invalid before commencing litigation to maintain his unlawful monopoly.

V. A SETTLEMENT AGREEMENT ENTERED VOLUNTARILY BY RESIGNING EMPLOYEES OF A HIGH TECHNOLOGY COMPANY TO RESOLVE THEIR OBLIGATIONS UNDER EMPLOYMENT AGREEMENTS SO THEY COULD TAKE AND USE THEIR EMPLOYER'S TECHNOLOGY, AND WHOSE ECONOMIC TERMS WERE REASONABLE AS A MATTER OF LAW, SHOULD NOT BE AN UNREASONABLE RESTRAINT ON TRADE UNDER SECTION ONE OF THE SHERMAN ACT.

This Court has repeatedly left the determination of the validity of trade secret licensing agreements to the states. *Lear Inc.* v. *Adkins*, 395 U.S. 653, 23 L.Ed.2d 610, 625, 89 S.Ct. 1902 (1969) (. . . "we should not now attempt to define in even a limited way the extent, if any, to which the States may properly act to enforce the contractual rights of unpatented secret ideas."). *Kewanee Oil Co.* v. *Bicron Corp.*, 416 U.S. 470, 40 L.Ed.2d 315, 331, 94 S.Ct. 1879 (1974) ("Neither complete nor partial preemption of state trade secret law is justified.").

In this case, Raytheon asserted it had trade secrets under state law and invoked its right of access to the courts in the event the parties could not settle their differences. The use of First Amendment rights led to settlement of the dispute. Clearly there is a strong public policy in favor of settlement of litigation. The settlement was an agreement to license the trade secrets. There also is a strong policy in favor of licensing trade secrets. *Kewanee Oil Co.* v. *Bicron, supra*. The license agreement at issue in this case settled the very issue of whether or not there were any trade secrets. It also resolved questions relating to Donadio's and Connolly's employment agreements. See, *Kewanee, supra* at 416 U.S. 475. It stated, *inter alia*, that:

> [Raytheon] possesses valuable trade secrets and other valuable information and inventions useful in the manufacture of material; . . .

As part of the settlement of the dispute, and executed concurrently, was the "Golden Rule letter" which specifically stated:

> if at any time during the term of that Agreement, Licensee encounters any situation which, in its opinion, makes the Agreement inequitable, Raytheon agrees that, upon presentation by Licensee to Raytheon of the relevant facts, and if such facts require a revising of such Agreement to cure such inequity, Raytheon will negotiate in good faith with Licensee for such a review without requiring any additional consideration from Licensee for such revision.

(E. 275.)

These provisions were the result of more than four months of arms-length negotiations with Donadio and Connolly represented by counsel, admittedly expert in the area of technology licensing. They understood the agreement, intended to be bound by it and entered it voluntarily (Tr. 675-679). The trial judge ruled as a matter of law that there "was no evidence of duress or coercion sufficient in law to avoid that contract" (Tr. 3374). He also held that forbearance was valid consideration under state law (Tr. 3374). The court of appeals acknowledged that there was no actual fraud cognizable under Massachusetts law (App. A. at 19a).

The provision in the agreement for renegotiation at no expense to licensee if anything proved inequitable contemplated the possibility that the trade secrets in question might change. When the court of appeals sought to distinguish *Aronson* v. *Quick Point Pencil Co.*, 440 U.S. 257, 59 L.Ed.2d 296, 99 S.Ct. 1096 (1979), it noted that the parties "anticipated the risk that the patent would not issue, and specifically provided for this risk in the agreement." (App. A. at 24a.) The Golden Rule Letter, which was not even mentioned by the court of appeals, shows that the parties anticipated there might be

changes that should be addressed, and, as an integral part of their agreement, so provided.

To permit the invalidation of this license agreement on an undefined federal common law of "bad faith" will provoke the adverse consequences feared in *Kewanee Oil Co.* v. *Bicron Corporation*, 416 U.S. 470, 485-487 (1974). It will foster employee disloyalty. It will reduce innovative effort in subject matter that might not be appropriate for patent protection. Security precautions will have to be increased; compensatory benefits might be required to assure loyalty placing smaller innovative companies at a disadvantage and increasing costs for the public. It will discourage the licensing of technology and promote hoarding rather than dissemination of knowledge, "organized scientific and technological research could become fragmented, and society, as a whole, would suffer." *Id.* at 486. All of these results are contrary to the policies of the antitrust laws but will be promoted if the decision in this case is allowed to stand.

Conclusion.

For the foregoing reasons, Raytheon Company respectfully requests that this Court grant a writ of certiorari.

Respectfully submitted,

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December 18, 1985

Appendix.

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Appendix A.

United States Court of Appeals

For the First Circuit

No. 84-1652

CVD, INCORPORATED, ET AL.,
Plaintiffs, Appellees,

v.

RAYTHEON COMPANY,
Defendant and Third-Party Plaintiff, Appellant.

APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE DISTRICT OF MASSACHUSETTS
[Hon. Walter Jay Skinner, *U.S. District Judge*]

Before
Coffin and Torruella, *Circuit Judges*,
and Re,* *Judge*.

Jack Brown with whom *Lawrence G.D. Scarborough, Bonnie P. Tucker, Victoria S. Lewis, Brown & Bain, P.A., Philip M. Cronin, Roger D. Matthews, Devra G. Bailin, Withington, Cross, Park & Groden,* and *Charles H. Resnick* were on brief for appellant.

Blair L. Perry with whom *Hale and Dorr* was on brief for appellees.

July 30, 1985

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* The Honorable Edward D. Re, Chief Judge, United States Court of International Trade, sitting by designation.

RE, Chief Judge: In this action, brought under the antitrust laws of the United States, defendant Raytheon Company (Raytheon) appeals from a judgment, entered pursuant to a special jury verdict, in the District Court for the District of Massachusetts. The judgment awarded plaintiff CVD, Inc. ("CVD") treble damages of $3,180, plus attorneys' fees and costs, granted plaintiffs declaratory relief, and dismissed the defendant's counterclaims.

The dispute between plaintiffs, CVD, Inc., Robert Donadio and Joseph Connolly, both former Raytheon employees, and defendant Raytheon pertains to the manufacture of zinc selenide (ZnSe) and zinc sulfide (ZnS) by a process known as chemical vapor deposition (cvd). On August 28, 1981, plaintiffs Donadio, Connolly, and CVD initiated this action, contending that defendant Raytheon attempted to monopolize the market for ZnSe and ZnS made by the cvd process, in violation of 15 U.S.C. § 2 (1982), and that a licensing agreement between the plaintiffs and Raytheon was an unreasonable restraint of interstate commerce and trade in violation of 15 U.S.C. § 1 (1982). The complaint sought damages and a declaratory judgment that the agreement between Raytheon and CVD, purporting to license the cvd process, was void and unenforceable. The defendant counterclaimed for breach of contract, misappropriation of trade secrets, breach of fiduciary duty, and violation of the Massachusetts consumer protection statute.

After a 27 day trial, in response to special interrogatories formulated by the court, the jury returned a verdict for the plaintiffs. Raytheon, who had previously moved for a directed verdict, filed motions for judgment notwithstanding the verdict, and for a new trial. These motions were denied, and judgment was entered for the plaintiffs. Defendant Raytheon thereupon filed a timely notice of appeal.

Raytheon asks this Court to order that, notwithstanding the verdict, judgment be entered for Raytheon on the ground that

there was insufficient evidence to support the verdict of the jury. In the alternative, Raytheon urges that the verdict should be set aside, since, in its view, it is against the weight of the evidence. Raytheon also contends that the jury's finding of damages on the plaintiff's antitrust claim should be set aside because the plaintiffs suffered no antitrust injury. In addition, Raytheon raises several subsidiary arguments that will be discussed in this opinion.

Since we find that the jury verdict was supported by sufficient evidence, and that Raytheon's contentions and other assertions of error are without merit, the judgment of the district court is affirmed.

Facts

Raytheon, a Delaware corporation with executive offices in Massachusetts, is a diversified company specializing in commercial and military electronics, materials and weapons. In 1959, plaintiff-appellee Donadio was hired as an engineer in the Advanced Materials Department at Raytheon. He was employed there until he resigned in the fall of 1979 in order to form CVD. Plaintiff-appellee Connolly was hired by Raytheon in 1972, and was employed there continuously until he also left to form CVD. Donadio and Connolly had signed employment agreements promising to protect Raytheon's proprietary information. Both were involved in the manufacture of zinc selenide and zinc sulfide by chemical vapor deposition (ZnSe/cvd or ZnS/cvd). This process combines vaporized zinc solids with hydrogen sulfide or hydrogen selenide in specially modified, high-temperature (approximately 900° centigrade) vacuum furnaces. The resulting solid materials are further processed into high precision optical materials which are used to make, among other things, infrared windows for lasers, high-

speed aircraft, and missiles. These materials are the only suitable materials for certian demanding optical uses. Most of Raytheon's work on these materials had been done under contracts with the federal government. As part of its obligation under these contracts, Raytheon was required to provide periodic reports that detailed the technology and processes used in the production operation.

In the fall of 1979, Donadio informed his supervisor, Dr. James Pappis, the manager of the Advanced Materials Department, that he intended to leave Raytheon to start a new company to manufacture ZnS and ZnSe by the cvd process. Pappis replied that this would present legal difficulties in light of Donadio's employment agreement and Raytheon's trade secrets. The next day Pappis consulted with Leo Reynolds, a patent attorney with Raytheon, who spoke with Pappis briefly, and examined some drawings and the government reports for the purpose of determining whether the cvd process contained trade secrets.

The following day Donadio and Connolly met with Pappis, Reynolds, Joseph Pannone, the Patent Counsel for Raytheon, and another Raytheon executive. Reynolds told Donadio and Connolly that they could not manufacture ZnS and ZnSe by the cvd process without using Raytheon trade secrets. Although Donadio disputed Reynolds' assertion that trade secrets were involved, Reynolds threatened to sue if they began to manufacture ZnS/cvd or ZnSe/cvd without a license from Raytheon. Soon thereafter, Donadio and Connolly were asked to leave Raytheon.

After this meeting, Donadio retained an attorney, Jerry Cohen, who specialized in intellectual property. In discussions with Raytheon, Cohen took the position that there were no trade secrets in Raytheon's chemical vapor deposition process since the technology had been published in government reports, and, therefore, was in the public domain. Raytheon asserted,

and later attempted to prove at trial, that important details were not included in the reports, and that, consequently, the reports were too vague to permit anyone to reproduce the cvd system. Cohen asked Reynolds for a list of what Raytheon claimed to be trade secrets. Reynolds refused to comply with the request on the ground he could not provide an "all-inclusive" list. At a later meeting, Reynolds read orally a list of claimed secrets but Cohen disputed all the items on the list.

In attempting to settle the dispute, Cohen proposed an agreement in which CVD would not be obligated to pay royalties if CVD could prove that no Raytheon trade secrets were used in its operations. This proposal was refused. Several other formulas for resolving the dispute were also discussed. Raytheon, however, held firm to its position that the plaintiffs could not manufacture ZnS/cvd or ZnSe/cvd without using Raytheon trade secrets, and insisted on a royalty rate based upon a flat percentage of revenue or volume for a ten-year period. Eventually, on February 15, 1980, an agreement was signed, providing for a 15% royalty on earnings for ZnSe and 8% for ZnS. No payments were ever made by CVD under the contract, however, and in 1981 plaintiffs filed the present action.

Standard of Review

The standard of review in setting aside a jury verdict is quite narrow. In order to set aside a verdict, and grant a new trial, the trial judge must find that "the verdict is against the clear weight of the evidence, or is based upon evidence which is false, or will result in a clear miscarriage of justice." *Coffran v. Hitchcock Clinic, Inc.*, 683 F.2d 5, 6 (1st Cir.), *cert. denied*, 459 U.S. 1087 (1982); *Borras v. Sea-Land Service, Inc.*, 586 F.2d 881, 886-87 (1st Cir. 1978). A jury verdict

that is supported by the evidence may not be set aside simply because the trial judge or the appellate court would have reached a different result. *See, e.g., Coffran, supra*, 683 F.2d at 6; *Borras, supra*, 586 F.2d at 887.

In this case, there is evidence which contradicts the plaintiffs' position. Nevertheless, the jury was not required to believe the defendant's evidence. *See Ford Motor Co. v. Webster's Auto Sales, Inc.*, 361 F.2d 874, 885 (1st Cir. 1966). When conflicting evidence is presented, from which contradictory inferences may be drawn, it is the role of the jury to make the ultimate determinations of fact. *See, e.g., Engine Specialties, Inc. v. Bombardier Ltd.*, 605 F.2d 1, 9 (1st Cir. 1979), *cert. denied*, 446 U.S. 983 (1980).

After having heard 25 days of evidence presented at trial, the trial judge found sufficient evidence to support the verdict of the jury. It is basic that the appellate court will overturn the trial court's decision only if there has been an abuse of discretion. *Coffran, supra*, 683 F.2d at 6.

The standard for granting a judgment *non obstante veredicto* (n.o.v.) is even more burdensome and narrow. A motion for judgment n.o.v. "'is properly granted only when, as a matter of law, no conclusion but one can be drawn.'" *United States v. Articles of Drug Consisting of the Following*, 745 F.2d 105, 113 (1st Cir. 1984), *cert. denied sub nom.* ____ U.S. ____, 105 S.Ct. 1358 (1985) (quoting, *Rios v. Empresas Lineas Maritimas Argentinas*, 575 F.2d 986, 990 (1st Cir. 1978)). The question presented, therefore, is whether, after reviewing the evidence in the light most favorable to the plaintiffs, and drawing all reasonable inferences in their favor, there is sufficient evidence in the record to support the verdict. *Engine Specialties, Inc., supra*, 605 F.2d at 9; *Rios, supra*, 575 F.2d at 990. Since we find that there is sufficient evidence in the record to support the jury's verdict, we affirm the judgment of the district court.

Sherman Act

This case presents a difficult question pertaining to the interaction of the federal antitrust laws and state trade secrets law. Guidance in resolving these questions can be found in analogous, but not identical, issues presented in cases in which patent infringement suits have been brought in bad faith with an intent to restrain competition or monopolize. *See, e.g., Walker Process Equipment, Inc. v. Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965); *Handgards, Inc. v. Ethicon, Inc.*, 743 F.2d 1282 (19th Cir. 1984), *cert. denied*, ____ U.S. ____, 105 S.Ct. 963 (1985) (*Handgards II*); *Kearney & Trecker Corp. v. Cincinnati Milacron Inc.*, 562 F.2d 365 (6th Cir. 1977); *Rex Chainbelt, Inc. v. Harco Products, Inc.*, 512 F.2d 993 (9th Cir.), *cert. denied*, 423 U.S. 831 (1975).

In examining "bad faith" patent infringement claims, courts have balanced the public interest in free competition, as manifested in the antitrust laws, with the federal interest in the enforcement of the patent laws, and the first amendment interest in the free access to courts. *See, e.g., Walker Process, supra*, 382 U.S. at 177-78; *Handgards, Inc. v. Ethicon, Inc.*, 601 F.2d 986, 993-96 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) (*Handgards I*); *Kobe, Inc. v. Dempsey Pump Co.*, 198 F.2d 416, 424-25 (10th Cir.), *cert. denied*, 344 U.S. 837 (1952). In the *Walker Process* case, the Supreme Court held that the enforcement of a patent obtained by fraud may constitute monopolization or attempted monopolization in violation of section 2 of the Sherman Act, provided the other elements of a monopolization claim are established. 382 U.S. at 177-78. In evaluating actions brought under this theory, courts have protected the federal interests in patent law enforcement and the free access to the courts by requiring, in addition to the other necessary elements of an antitrust claim, "clear and convincing evidence" of fraud in asserting or pursuing patent

infringement claims. *See, e.g., Handgards I, supra*, 601 F.2d at 996; *Norton Co. v. Carborundum Co.*, 530 F.2d 435, 444 (1st Cir. 1976); *Cataphote Corp. v. DeSoto Chemical Coatings, Inc.*, 450 F.2d 769, 772 (9th Cir. 1971), *cert. denied*, 408 U.S. 929 (1972).

Hence, a patentee who has a good faith belief in the validity of a patent will not be exposed to antitrust damages even if the patent proves to be invalid, or the infringement action unsuccessful. The requirement of clear and convincing evidence is intended to prevent a frustration of the patent laws. It also ensures the free access to the courts by allowing honest patentees to protect their patents without undue risk of incurring liability for asserting their rights.

There are, of course, significant differences between patent and trade secret protection. The scope of protectible trade secrets is far broader than the scope of patentable technology. *See, e.g., Kewanee Oil Co. v. Bicron Corp.*, 416 U.S. 470, 486 (1974); *Atlantic Wool Combing Co. v. Norfolk Mills, Inc.*, 357 F.2d 866, 869 (1st Cir. 1966). Under Massachusetts law, a trade secret may consist of:

> any formula, pattern, device or compilation of information which is used in one's business, and which gives him an opportunity to obtain an advantage over competitors who do not know or use it. It may be . . . a process of manufacturing . . . . A trade secret is a process or device for continuous use in the operation of the business. Generally it relates to the production of goods, as, for example, a machine or formula for the protection of an article.

Eastern Marble Products Corp. v. Roman Marble, Inc. 372 Mass. 835, 364 N.E. 2d 799, 801 (1977), *quoting*, Restatement

of Torts § 757 comment b; *J.T. Healy & Son, Inc. v. James A. Murphy & Son, Inc.* 357 Mass. 728, 736, 260 N.E. 2d 723, 729 (1970).

The basis for the federal patent system is found expressly in the Constitution. *See* U.S. Const. art. I. § 8, cl. 8. A patent confers a legal monopoly for a limited period of time. In return for the patent, the patentee must fully disclose the patented invention or process. After the expiration of the statutory period, the patentee loses all exclusive rights to the patent. *See, e.g., Kewanee Oil Co., supra* 416 U.S. at 480-81.

The cornerstone of a trade secret, however, is secrecy. Once a trade secret enters the public domain, the possessor's exclusive rights to the secret are lost. Moreover, unlike a patent, a trade secret affords no rights against the independent development of the same technology or knowledge by others. *See, e.g., Kewanee Oil Co., supra*, 416 U.S. at 475-76; *A. & E. Plastik Pak Co. v. Monsanto Co.*, 396 F. 2d 710, 714-15 (9th Cir. 1968).

As with patent law, the rationale behind state trade secret law is to encourage invention, and to provide innovators with protection for the fruits of their labors. *See, e.g., Kewanee Oil Corp., supra*, 416 U.S. at 481-85. In addition, trade secret law is intended to maintain and promote standards of commercial ethics and fair dealing. *Id.*

In this case, the court must resolve a dispute which brings into focus the tension between the antitrust laws and the public interest in the licensing of trade secrets. Generally, there is a significant public interest in the licensing of trade secrets. By licensing a trade secret, the licensor partially releases his monopoly position and effectively disseminates information. *See Kewanee Oil Co., supra*, 416 U.S. at 486; *A. & E. Plastik Pak, supra*, 396 F.2d at 715. The result, it is hoped, is greater competition that will enure to the benefit of the public.

Like the holders of other intellectual property rights, possessors of trade secrets are entitled to assert their rights against would-be infringers and to defend their rights in court. *See Handgards I, supra*, 601 F.2d at 993 (*citing Eastern Railroad Presidents Conference v. Noerr Motor Freight*, 365 U.S. 127 (1961), and *United Mine Workers v. Pennington*, 381 U.S. 657 (1965)). Nevertheless, the assertion in bad faith of trade secret claims, that is, with the knowledge that no trade secrets exist, for the purpose of restraining competition does not further the policies of either the antitrust or the trade secrets laws. *Cf. Handgards I, supra*, 601 F.2d at 993; P. Areeda & D. Turner, 3 Antitrust Law, § 708. Thus, it seems clear that the assertion of a trade secret claim in bad faith, in an attempt to monopolize, can be a violation of the antitrust laws. *See A. & E. Plastik Pak Co., supra*, 396 F.2d at 715. Similarly, it is well established that an agreement which purports to license trade secrets, but in reality, is no more than a sham, or device designed to restrict competition, may violate the antitrust laws. *A. & E. Plastik Pak Co., supra*, 396 F.2d at 715. *Cf. United States v. Imperial Chemical Industries*, 100 F.Supp. 504, 592 (S.D. N.Y. 1951).

We believe that the proper balance between the atitrust laws and trade secrets law is achieved by requiring an antitrust plaintiff to prove, in addition to the other elements of an antitrust violation, by clear and convincing evidence, that the defendant asserted trade secrets with the knowledge that no trade secrets existed. In order to prove a contract or a combination in restraint of trade in violation of section 1 of the Sherman Act, the plaintiff must also prove that the defendant had market power in the relevant market, and the specific intent to restrain competition. To succeed in an attempted monopolization claim under section 2 of the Sherman Act, the plaintiff must prove that the defendant had the specific intent to monopolize the relevant market, and a dangerous probability

of success. As other courts have noted, a specific intent to monopolize or restrain competition can often be inferred from a finding of bad faith. *Handgards II, supra*, 743 F.2d at 1293 (quoting *Handgards I, supra*, 601 F.2d at 993 n. 13).

This case differs from the *Walker Process* line of cases in that Raytheon did not actually initiate litigation against the plaintiffs. Instead, the evidence indicates that it used the threat of litigation to exact a licensing agreement from the plaintiffs. In this case, litigation with Raytheon would have proved ruinous to the newly formed corporation, and effectively foreclosed competition in the relevant market. Under these circumstances, we hold that the threat of unfounded trade secrets litigation in bad faith is sufficient to constitute a cause of action under the antitrust laws, provided that the other essential elements of a violation are proven.

Relevant Market

It is undisputed that, until CVD's formation, Raytheon was the only company in the world to produce for commercial sale zinc selenide or zinc sulfide by chemical vapor deposition. One other company, II-VI, Inc., produced small quantities of zinc selenide for its own use. Because of their low porosity and high purity, ZnSe and ZnS made by the chemical vapor deposition process are the only suitable materials for certain demanding optical uses. Specifically, because of its optical properties and its durability, zinc sulfide cvd is the only suitable material for use in 8-12 micron "forward looking infrared" windows on missiles and jet aircraft. Zinc selenide is the only suitable material for windows in high energy carbon dioxide lasers.

In answer to a special interrogatory, the jury found that the defendant Raytheon had market power as to both zinc sulfide and zinc selenide. This conclusion is amply supported by the evidence.

Trade Secrets and Bad Faith

The proof as to the existence of trade secrets and the defendant's bad faith in asserting them, if they did not exist, is necessarily intertwined. As noted, in order to be protected by law, a trade secret must be kept in secret. *See U.S.M. Corp. v. Marson Fastener Corp.*, 379 Mass. 90, 98-99, 393 N.E. 2d 895, 899 (1979); *J.T. Healy & Son, Inc. v. James A. Murphy & Son, Inc.*, 357 Mass. 728, 737, 260 N.E. 2d 723, 730 (1970). Heroic measures to ensure secrecy are not essential, but reasonable precautions must be taken to protect the information. *See U.S.M. Corp., supra*, 397 Mass. at 97-98, 393 N.E. 2d at 900. Whether a trade secret exists depends in each case "on the conduct of the parties and the nature of the information." *Eastern Marble Products Corp. v. Roman Marble, Inc.*, 377 Mass. 835, 364 N.E. 2d 799, 802 (1977); *Jet Spray Cooler, Inc. v. Crampton*, 361 Mass. 835, 840, 282 N.E. 2d 921, 925 (1972). Although the fact that a product is unique tends to prove that a trade secret exists, *see Curtiss-Wright Corp. v. Edel-Brown Tool & Die Co.*, 381 Mass. 1, 11, 407 N.E. 2d 319, 326 (1980), "[u]niqueness without more is not commensurate with possession of a trade secret." *Dynamics Research Corp. v. Analytic Sciences Corp.*, 9 Mass. App. 254, 400 N.E. 2d 1274, 1286 (1980); *Laughlin Filter Corp. v. Bird Machine Co.*, 319 Mass. 287, 290, 65 N.E. 2d 545, 546-47 (1946).

It is also "well settled that an employee upon terminating his employment may carry away and use the general skill or knowledge acquired during the course of the employment." *Junker v. Plummer*, 320 Mass. 76, 79, 67 N.E. 2d 667, 669 (1946). *See Jet Spray Cooler, Inc. v. Crampton*, 361 Mass. 835, 839, 282 N.E. 2d 921, 924 (1972); *Dynamics Research Corp. v. Analytic Sciences Corp.*, 9 Mass. App. 254, 400 N.E. 2d 1274, 1282 (1980); *see generally*, 2 J. McCarthy, Trademarks and Unfair Competition § 29:16 (1973). This principle effectuates the public interest in labor mobility, promotes the employee's freedom to practice a profession, and freedom of competition. *See Club Aluminum Co. v. Young*, 263 Mass. 223, 225-27, 160 N.E. 804, 805-06 (1928); *Dynamics Research Corp. v. Analytic Sciences Corp.*, 9 Mass. App. 254, 400 N.E. 2d 1274, 1282 (1980).

The existence of trade secrets in Raytheon's ZnS/cvd and ZnSe/cvd manufacturing process depends upon the degree of public disclosure of the relevant information. It is the determination of this Court that the jury could have found sufficient evidence that the essential information contained in the cvd technology had entered the public domain, and, therefore, Raytheon possessed no trade secrets in this technology. Furthermore, there was sufficient evidence for the jury to find that Raytheon knew that no trade secrets existed. Hence, it was proper for the jury to conclude that Raytheon's assertion of trade secrets and exaction of the licensing agreement were in bad faith.

Specifically, upon the evidence presented, the jury could have found the following facts to support its conclusions. The process of chemical vapor deposition generally was well known in the scientific community. Raytheon regularly published schematics, diagrams, run conditions, and other detailed information related to the production of ZnS/cvd and ZnSe/cvd in periodic reports supplied to the government as part of Rayth-

eon's contractual obligations. Although some of the reports were temporarily classified by the government for security purposes, all of these reports were available to the public by 1979. At trial, the plaintiffs demonstrated that nearly all the details originally claimed as trade secrets were published in the reports. There was also evidence that the details not specifically mentioned in the reports were either obvious or insignificant, or both.

In addition, Raytheon employees had published papers relating to cvd technology in scientific journals. Raytheon had also produced a film about this technology which was shown to a convention of engineers (and later to the jury). Photographs of the interior of the cvd furnace were published in various publications. Raytheon employees gave lectures and speeches on the technology to various groups, often accompanied by viewgraphs or slides of the equipment. Although access to the facility was limited, visitors were permitted to view the furnaces. Donadio testified that, based on the information disclosed to the public, a competent engineer could construct and operate a viable system for the production of zinc selenide or zinc sulfide through chemical vapor deposition. It is also noteworthy that the furnaces built by CVD were smaller than Raytheon's latest furnaces and differed in certain dimensions.

Notwithstanding the extent of this public disclosure, Raytheon argues that the information in the public domain was too vague and incomplete to enable anyone to reproduce the system without costly trial and error experimentation. Defendant presented expert testimony in support of this view. Nevertheless, the jury was not required to believe the defendant's evidence. *See Ford Motor Co. v. Webster's Auto Sales, Inc.*, 361 F.2d 874, 885 (1st Cir. 1966). Although Donadio's testimony was consistent with his self-interest, it was nevertheless based upon his personal knowledge and expert opinion founded on over 20 years of experience in chemical vapor deposition.

Moreover, on cross-examination, the defendant's experts admitted that many of the details claimed to be trade secrets would occur as logical, if not obvious, choices to a competent engineer designing a system. Under these circumstances, it is not for this Court to judge the credibility of witnesses. The jury, therefore, was entitled to, and apparently did, rely upon and give credence to the plaintiffs' evidence over that of the defendant.

Also significant, as to both the existence of trade secrets and the issue of bad faith, was Raytheon's failure to follow its own established procedures for the protection of trade secrets. For example, despite a written policy that all confidential drawings and documents were to be stamped with a restrictive legend warning of the document's confidential nature, none of the engineering drawings for the cvd furnaces was stamped or marked with any restrictive legend. Furthermore, there was no evidence that Donadio or Connolly took any engineering drawings with them when they left Raytheon. Indeed, there was evidence, albeit inconclusive, tending to suggest that Raytheon had altered drawings after the commencement of this litigation to conform to CVD drawings.

There was also sufficient evidence for the jury to conclude that Raytheon had made a policy decision not to protect at least certain aspects of the cvd process. For example, Raytheon's patent department instructed Raytheon's engineering personnel that an "invention disclosure should be submitted on every new or improved device, system, method or composition of matter . . . which is more than routine engineering." These forms were reviewed by a committee and a determination was made as to how they should be protected. The disclosures were then assigned a status code reflecting the committee's determination. Code 3 meant that the item should be protected as a trade secret. Code 2 indicated that a patent application would not be filed, and that the item was not to be protected as a

trade secret. Items that were designated for protection as trade secrets were filed in a file section referred to as the "trade secrets drawer."

Evidence introduced at trial indicated that no invention disclosures relating to the manufacture of zinc selenide or zinc sulfide by the cvd process were ever designated for protection as a trade secret. Moreover, nothing related to ZnS/cvd or ZnSe/cvd was found in the "trade secrets drawer." It appears that the only invention disclosure relating to ZnSe/cvd was filed in 1973, prior to the development of Raytheon's more advanced furnaces. This disclosure was classified status code 2, *i.e.*, "Do not protect."

Raytheon introduced evidence tending to minimize the significance of these facts. Nevertheless, the jury could properly and fairly have drawn the inference that, since Raytheon did not follow its formalized procedures in protecting ZnS/cvd and ZnSe/cvd technology, it did not have the intention to maintain the technology as a trade secret.

Other evidence that would tend to prove bad faith includes the fact that Reynolds asserted trade secrets, and threatened litigation, after only a cursory investigation without thoroughly examining the majority of the government reports or the extent of public disclosure. Reynolds also refused to give Cohen a list of claimed secrets. From this, the jury could have inferred that Reynolds could not make such a list because he knew that there were no secrets. There was also testimony that Cohen pointed out to Reynolds that all the items Reynolds claimed were trade secrets at their January 22, 1980 meeting were in fact published in the government reports.

In short, the record reveals the extensive public disclosure, Raytheon's failure to follow its own procedures for trade secret protection, its refusal to specify trade secrets in asserting its claims or in the agreement, and its insistence on a flat ten-year term at 15% and 8% royalty rates. In light of these facts, the

jury could have concluded that Raytheon knew it had no trade secrets, yet nevertheless asserted them in bad faith in order to restrain competition and monopolize the ZnS/cvd and ZnSe/cvd markets.

Hot Isostatic Pressing

Raytheon included in its counterclaim a cause of action for misappropriation of trade secrets related to the processing of zinc sulfide by hot isostatic pressing (hipping). Hot isostatic pressing involves subjecting a material to extremely high pressures of up to 30,000 pounds per square inch at a high temperature. Under the proper conditions, the process will improve the transparency of zinc sulfide, thereby enhancing its optical quality.

Raytheon alleges that CVD induced its hipping contractor, Industrial Materials Technology, Inc. (IMT), to reveal Raytheon's trade secrets in hipping, specifically its run conditions and its use of platinum foil to wrap the zinc sulfide. In response to a special interrogatory, the jury found that Raytheon had no trade secrets in the hipping process. Raytheon contends that it established this claim as a matter of law, and that it is therefore entitled to judgment n.o.v. or a new trial on this claim. The defendant also requested that the district court make findings pursuant to Rule 49(a) of the Federal Rules of Civil Procedure, and grant injunctive relief, which the district court refused.

Dr. Charles Willingham, a Raytheon employee, testified that Raytheon's use of platinum foil was unique and confidential. Raytheon also introduced evidence that IMT had made a common hipping run of Raytheon and CVD materials.

Donadio, however, testified that he had never requested either a common run with Raytheon or that IMT reveal Raytheon run conditions. He also testified that, basically, he relied on Dr. Peter Price, the president of IMT, who was a leading expert on hipping, to determine run conditions. The plaintiffs also presented evidence that, by 1979, hipping to improve transparency was well known in the scientific community.

Although Donadio and Connolly were aware that zinc sulfide was being hipped by Raytheon, they were never informed of specific run conditions while at Raytheon. The pressure and temperature levels of the hipping run were determined by IMT's capacity and zinc sulfide's chemical properties, respectively. The use of platinum foil, Donadio testified, was Dr. Price's suggestion. Melvin Mittnick, a former IMT employee, testified that IMT had used platinum foil wrap in hipping other types of materials.

In regard to the hipping issue, we also find that there was sufficient evidence to support the jury verdict. In response to the defendant's Rule 49(a) motion, the district judge found that the jury determination that Raytheon had no trade secrets in the hipping process precluded him from making further findings of fact or granting Raytheon any relief on this issue. Although he noted that he would have found that the use of platinum foil constituted a trade secret of Raytheon, he properly deferred to the jury's assessment of the evidence.

Reliance

Defendant Raytheon argues strenuously that reliance is a necessary element to establish a cause of action against it. Since the plaintiffs did not rely on any of Raytheon's misstatements, and entered into the agreement while represented by

competent counsel, Raytheon contends that plaintiffs are precluded from relief. In an action to rescind the contract or recover damages on a theory of fraud, under Massachusetts law, this contention might have merit. *See Metropolitan Life Ins. Co. v. Ditmore*, 729 F.2d 1, 4 (1st Cir. 1984); *Liberty Leather Corp. v. Callum*, 653 F.2d 694, 699 (1st Cir. 1981); *Brockton Savings Bank v. Peat, Marwick, Mitchell & Co.*, 577 F.Supp. 1281, 1287 (D.Mass. 1983). Nevertheless, it is clear that the policies expressed in the federal antitrust laws will override any agreement in contravention of those policies, regardless of the agreement's legality under private contract law. *See Simpson v. Union Oil Co.*, 377 U.S. 13, 18 (1964); *Wegmann v. London*, 648 F.2d 1072, 1074 (5th Cir. 1981); *Cf. Lear, Inc. v. Adkins*, 395 U.S. 653 (1969).

It is also well established that the federal interest in the "full and free use of ideas in the public domain" will override state law in conflict with it. *Lear, Inc. v. Adkins*, 395 U.S. 653, 668, 674 (1969). *Cf. Dynamics Research Corp. v. Analytic Sciences Corp.*, 9 Mass. App. Ct. 254, 278, 400 N.E. 2d 1274, 1288 (1980) (an "agreement which seeks to restrict the employee's right to use an alleged trade secret which is not such in fact or in law is uneforceable as against public policy").

In *Lear, Inc. v. Adkins*, 395 U.S. 653 (1969), the Supreme Court held that the policies underlying the federal patent laws outweighed principles of state contract law when a patent licensee wished to challenge the validity of the licensed patent. Thus, the Court held that a licensee was not estopped from challenging the validity of its patent in court, and rescinding the licensing agreement if successful.

In this case, the jury found that Raytheon had no trade secrets in its cvd process. The jury further found that Raytheon knew it had no trade secrets, yet asserted their existence in order to exact a licensing agreement from CVD and restrain competition.

Donadio and Connolly testified that, although they believed that no trade secrets existed, they agreed to sign the licensing agreement with Raytheon because they had no alternative. Donadio testified that threatened litigation with Raytheon would have foreclosed them from obtaining financing for their new company. Thus, the plaintiffs testified, the threat of litigation with Raytheon would have effectively prevented them from entering into the business. Both men had been asked to resign from Raytheon and were unemployed. However, since they did not believe that Raytheon possessed any trade secrets, there was no evidence that they "relied" on any material misrepresentation in entering into the license. Nor do these facts establish duress to the extent that the plaintiffs were placed " 'under the influence of fear as preclude[d] [them] from exercising free will and judgment.' " *See Coveney v. President & Trustees*, 388 Mass. 16, 23, 445 N.E. 2d 136, 140 (1983) (*quoting Avallone v. Elizabeth Arden Sales Corp.*, 344 Mass. 556, 561, 183 N.E. 2d 496, 499(1962)).

Essentially, fraud under Massachusetts law is derived from the common law tort of deceit or misrepresentation. The practice at issue in this case, the assertion of claims in bad faith, is a predatory practice under the antitrust laws. As a cause of action, it descends directly from the *Walker Process* case and its progeny. Under the antitrust laws, plaintiffs need not necessarily be deceived. They are often simply the victims of the predatory practices of a powerful competitor who seeks to restrain competition or monopolize the market. The assertion of trade secret claims in bad faith has been identified as a predatory practice. *See A. & E. Plastik Pak, supra*, 396 F.2d at 715. Thus, the behavior complained of in this case is properly analyzed according to established principles of antitrust law, rather than under a common law fraud theory of action. Reliance, therefore, is not an essential element to be proven.

In *Perma Life Muffler, Inc. v. International Parts Corp.*, 392 U.S. 134 (1968), the Supreme Court held that the defense

of *in pari delicto* is not a defense to an antitrust complaint. In that case, the Court held that the plaintiff-franchisees were not barred by their voluntary entry into the franchise agreements from maintaining an antitrust action against the defendant franchisor. The court found that:

> Although petitioners may be subject to some criticism for having taken any party in respondents' allegedly illegal scheme and for eagerly seeking more franchises and more profits, their participation was not voluntary in any meaningful sense. They sought the franchises enthusiastically but they did not actively seek each and every clause of the agreement. Rather, many of the clauses were quite clearly detrimental to their interests, and they alleged that they had continually objected to them. Petitioners apparently accepted many of these restraints solely because their acquiescence was necessary to obtain an otherwise attractive business opportunity.

Id. at 139 (emphasis added).

The defendant's conduct in this case presents a more sharply drawn example of overreaching. The plaintiffs objected strenuously to the terms of the agreement, and to the necessity for any license at all. Indeed, unlike the plaintiffs in the *Perma Life* case, who received substantial benefits in return for acquiescing to the agreements' allegedly anti-competitive terms, the plaintiffs here received no benefit from the agreement other than the right to use non-existent trade secrets and Raytheon's promise not to engage in bad-faith litigation.

It should be noted that in *Copperweld Corp. v. Independence Tube Corp.*, ___ U.S. ___, 104 S.Ct. 2731 (1984), the Supreme Court partially overruled *Perma Life* to the extent

that the *Perma Life* Court relied on an intra-enterprise conspiracy among a parent corporation and its subsidiaries as a "combination" in restraint of trade. The Court did not question its earlier rejection of the *in pari delicto* defense in antitrust actions, and specifically noted that the intra-enterprise conspiracy doctrine was not essential to the *Perma Life* decision and was "at most only an alternative holding." ____ U.S. at ____, 104 S.Ct. at 2739. The *Copperweld* decision does not affect the conclusion that the doctrine of *in pari delicto* "is not to be recognized as a defense to an antitrust action." *Perma Life*, *supra*, 392 U.S. at 140. Indeed, the *Copperweld* Court reiterated that an agreement between a plaintiff and a defendant clearly may serve as the basis of section 1 complaint. ____ U.S. at ____ & n.9, 104 S.Ct. at 2738 & n.9.

Several courts have held that a plaintiff's complete, voluntary, and substantially equal participation in an allegedly illegal scheme precludes recovery for antitrust violations. *See, e.g., THI-Hawaii, Inc. v. First Commerce Financial Corp.*, 627 F. 2d 991, 995 (9th Cir. 1980); *Wilson P. Abraham Const. Corp. v. Texas Indus., Inc.*, 604 F.2d 897, 902 (5th Cir. 1979), *aff'd sub nom.* 451 U.S. 630 (1981); *Columbia Nitrogen Corp. v. Royster Co.*, 451 F.2d 3, 16 (4th Cir. 1971). The complete involvement defense is premised upon the "equitable consideration of preventing a windfall gain from the plaintiff's own wrongdoing." *THI-Hawaii, supra*, 627 F.2d at 996.

Although, in soliciting business, CVD held itself out as a licensee of Raytheon's proprietary technology, CVD's involvement cannot be said to be equal or complete. The evidence indicates that CVD vigorously protested the imposition of the licensing agreement only to be overwhelmed by a party in a superior bargaining position. Thus, the complete involvement defense is not applicable here. *Cf. Premier Elec. Constr. Co. v. Miller-Davis Co.*, 422 F.2d 1132, 1138 (7th Cir.), *cert. denied*, 400 U.S. 828 (1970).

In support of its position, Raytheon cites *Transitron Electronic Corp. v. Hughes Aircraft Co.*, 649 F.2d 871 (1st Cir. 1981). In *Transitron*, this court considered whether a patent licensee could recover royalties already paid to a licensor when the licensing agreement is declared invalid. We held that a licensee must establish actual fraud on the part of the licensor against the licensee in order to recover back royalties. This holding was based upon "patent law policies and on the equities between licensor and licensee." Under a less stringent standard, a licensee would have "an incentive to delay challenging the patent, enjoying the competitive advantage of the license and avoiding the necessity of defending an infringement suit, secure in the knowledge that he could recoup his royalty cost later." *Id.* at 875. Allowing recovery of back royalties for gross negligence or so-called "technical" fraud would inject undue uncertainty into the royalty system. An honest, though negligent, licensor could be subjected to ruinous liability after the licensee had received the benefits of the license.

The present case is clearly distinguishable from *Transitron*. No royalties have been paid under the agreement. More significantly, in *Transitron* the district court found that the defendant had a "good faith belief" in the validity of the patent. *Id.* at 878. In this case, in addition to the essential elements of an antitrust claim, the jury found that Raytheon's assertion of trade secrets was in bad faith.

Raytheon also relies on *Aronson v. Quick Point Pencil Co.*, 440 U.S. 257 (1979). In *Aronson*, the defendant had invented a new form of keyholder and applied for a patent. While the patent application was pending, the defendant entered into a licensing agreement with the plaintiff relating to her design. The agreement provided that the plaintiff-licensee would pay royalties of 5% of gross sales for use of the defendant's design. In the event that a patent was not obtained within five years, the royalty was to be reduced to 2½% of gross sales. After

the patent application was rejected, the plaintiff sought a declaratory judgment that the royalty agreement was unenforceable.

The Supreme Court held that the agreement was not in conflict with federal patent law and was therefore valid and enforceable. The Court reasoned that the parties anticipated the risk that the patent would not issue, and specifically provided for this risk in the agreement. As consideration, the licensee received the benefit of inventor's new design immediately upon entering into the agreement, and was able to exploit the novelty of the device. The contract, the Court found, encouraged the federal interest in full disclosure of inventions or innovations. Therefore, the Court upheld the validity of the contract.

The *Aronson* case is clearly inapposite to the instant case. In *Aronson*, the parties, in good faith, made a bargain in which they considered and specifically provided for the risk of the patent application's failure. In return for the promise to pay royalties, the licensee was entitled to exploit immediately the licensor's novel invention. In this case, the plaintiff CVD received as consideration only Raytheon's forbearance from litigation, litigation that would have been conducted in bad faith. Since the jury found that Raytheon knew it had no trade secrets and that it asserted them in bad faith, there was no valid consideration for CVD's promise to pay royalties. The fact that CVD refused to pay any royalties under the agreement does not alter this result.

Antitrust Injury

As an additional defense, Raytheon argues that the plaintiffs did not suffer the type of injury that the antitrust laws were

designed to prevent. *See Associated General Contractors of California, Inc. v. California State Council of Carpenters*, 459 U.S. 519 (1983); *Brunswick Corp. v. Pueblo Bowl-O-Mat, Inc.*, 429 U.S. 477, 488 (1977).

In *Brunswick*, the Supreme Court explained that an antitrust plaintiff must prove more than injury causally related to an antitrust violation. A plaintiff must prove that its injury flowed from the anti-competitive nature of the defendant's acts:

> Plaintiffs must prove *antitrust* injury, which is to say injury of the type the antitrust laws were intended to prevent and that flows from that which makes defendants' acts unlawful. The injury should reflect the anticompetitive acts made possible by the violation. It should, in short, be "the type of loss that the claimed violations . . . would be likely to cause." *Zenith Radio Corp. v. Hazeltine Research*, 395 U.S. [100] at 125.

429 U.S. at 489, 97 S.Ct. at 697-698 (emphasis in original) (footnote omitted). *See Engine Specialties, Inc. v. Bombardier Ltd.*, 605 F.2d 1, 12 (1st Cir. 1979), *cert. denied*, 446 U.S. 983 (1980).

In effect, the evidence indicates that Raytheon gave Donadio and Connolly three choices: (1) defend a trade secrets infringement suit against Raytheon; (2) refrain from competing with Raytheon in the manufacture of ZnS/cvd and ZnSe/cvd; or (3) take a license from Raytheon for the use of alleged trade secrets. All of the choices would have had an adverse economic impact on the plaintiffs, as well as an anticompetitive effect. Indeed, the first two alternatives would have been fatal to CVD's existence as a viable concern. Since Raytheon asserted its claim in bad faith, with the intent to restrain competition,

it is the type of offense the antitrust laws are designed to prevent. The injury to CVD, legal expenses incurred in attempting to resolve Raytheon's bad faith claims, reflects the anticompetitive effect of acts with an anticompetitive intent. *See Handgards II, supra*, 743 F.2d at 1297; *Kearney & Trecker Corp. v. Cincinnati Milacron, Inc.*, 562 F.2d 365, 374 (6th Cir. 1977).

In *Handgards II, supra*, an antitrust case based on the bad faith assertion of patent claims, the defendant argued that its earlier offers to license the plaintiff precluded a finding of antitrust injury. The Ninth Circuit rejected this contention finding that, while licensing offers may be considered as evidence of good faith, "[a]ny offer to license a patent that it knew was invalid cannot preclude a finding of antitrust injury as a matter of law." *Id.* at 1295. The court, therefore, upheld the award of legal fees expended in defending bad faith litigation as a proper element of antitrust damages.

The fact that the plaintiffs here succumbed to the defendant's pressure in order to establish themselves as a manufacturer of ZnS/cvd and ZnSe/cvd does not deprive them of standing under the antitrust laws. Thus, we find that the district court properly upheld the jury's award of $1,060 for legal expenses incurred in attempting to resolve the original dispute with Raytheon.

Instructions to the Jury

Raytheon also assigns as error the district judge's failure to instruct the jury that the inability of other firms to obtain comparable results in manufacturing ZnS/cvd and ZnSe/cvd is evidence that tends to show the existence of trade secrets in Raytheons process and machinery. As indicated previously, the inability of competitors to reproduce a product or process

tends to prove the existence of trade secrets. *See, e.g., Curtiss-Wright Corp., supra*, 381 Mass. at 11, 407 N.E. 2d at 326, *Eastern Marble, supra*, 372 Mass. at 839, 364 N.E. 2d at 802; *Junker v. Plummer*, 320 Mass. 76, 78, 67 N.E. 2d 667, 668 (1946). Nevertheless, counsel for Raytheon did not properly object to the omission of this instruction, and, therefore, pursuant to Rule 51 of the Federal Rules of Civil Procedure, the failure to include the requested instruction cannot constitute reversible error.

> Rule 51 in pertinent part provides:
>
> No party may assign as error the giving or the failure to give an instruction unless he objects thereto before the jury retires to consider its verdict, stating distinctly the matter to which he objects and the grounds of his objection.

Fed. R. Civ. P. 51. "We have held that Rule 51 means what it says: the grounds for objection must be stated 'distinctly' after the charge to give the judge an opportunity to correct his error." *Jordan v. United States Lines, Inc.*, 738 F.2d 48, 51 (1st Cir. 1984). *See Ouimette v. E.F. Hutton & Co., Inc.*, 740 F.2d 72, 75-76 (1st Cir. 1984); *McGrath v. Spirito*, 733 F.2d 967, 968-69 (1st Cir. 1984). Reading a list of the numbers of the requested instructions is not sufficient to preserve an objection under Rule 51. *See Charles A. Wright, Inc. v. F. D. Rich Co.*, 354 F.2d 710, 713 (1st Cir.), *cert. denied*, 385 U.S. 890 (1966). What occurred in this case illustrates the necessity of requiring a strict interpretation and adherence to this rule.

In this case, the trial judge indicated to counsel at a conference after the close of evidence that he intended to give Raytheon's requested instruction, number 12, over the plaintiffs'

objection. The next day, however, the district judge did not mention this instruction in instructing the jury. When the district judge finished instructing the jury, he asked counsel for their objections. Counsel for Raytheon objected to, among other things, the court's failure to give requested instructions "12, 16, 17, 18, 19, 20, and 21 [which] refer to the duty of an employee not to disclose, irrespective of the trade secret category . . . confidential information." It is apparent that this objection did not state "distinctly" the matter to which counsel objected or "the grounds of his objection." Indeed, it indicated a basis entirely unrelated to its present objection. Thus, it is impossible for this Court on appeal to know whether the district judge reconsidered his original decision that this instruction was proper, or simply omitted this instruction through inadvertence. By failing to state distinctly the grounds of his objection, as required by Rule 51, counsel for Raytheon deprived the district judge of the opportunity to correct his instructions before the jury retired. Therefore, any resulting error cannot be the basis for a reversal on appeal.

Resubmission to the Jury

Raytheon also attacks the jury's damage award on the grounds that the damages interrogatory was improperly resubmitted to the jury after it returned an improper verdict, and that the district judge prejudiced Raytheon by informing the jury that the court would award attorney's fees if damages were awarded.

In response to the original damages interrogatory, the jury answered "Damages equal to all legal fees and court costs incurred in connection with this suit." The court indicated that this answer was not acceptable, and that the jury must recon-

sider and return with a proper reply. Raytheon's counsel objected to the resubmission to the jury, contending that the original answer should be construed as a finding of no damages. The court, however, found that the jury verdict was ambiguous in that the jury might have meant to include the $1,060 in legal fees, which related to the original trade secret claims in early 1980. The trial judge noted for the record that some jurors nodded affirmatively when he mentioned this in his resubmission instructions.

It is well-established that the court should ask a jury to correct its verdict when the jury has failed to follow the court's instructions in returning a verdict. *See, e.g., Merchant v. Ruhle*, 740 F.2d 86, 91 (1st Cir. 1984); *Rios v. Empresas Lineas Maritimas Argentinas*, 575 F.2d 986, 990 (1st Cir. 1978). Since it was reasonable for the court to have construed the verdict as being ambiguous, it was properly resubmitted to the jury. The court's instructions upon resubmission were correct, and included the possibility of a finding of zero or no damages.

Finally, Raytheon argues that the damages award should be overturned because the jury was informed that the court would award attorneys' fees and treble damages if damages were awarded. The defendant made no objection at the trial. While it is generally not advisable to inform a jury of the treble damages or attorneys' fees provisions of the antitrust laws because of the danger that a jury may reduce a plaintiff's award to account for trebling, *see Pollock & Riley, Inc. v. Pearl Brewing Co.*, 498 F.2d 1240, 1243 (5th Cir. 1974), *cert. denied sub nom.* 420 U.S. 992 (1975), any error that may have occurred was not preserved by timely objection. This court has held that the jury is presumed to have followed the instructions of the court. *Kukuruza v. General Elec. Co.*, 510 F.2d 1208, 1218 (1st Cir. 1975). The district judge made it clear that legal fees were a matter for the court, and not within

the discretion of the jury. In this case, the jury was given proper instructions and returned a proper verdict on resubmission. We, therefore, uphold the damages awarded to plaintiffs.

Conclusion

Our review of the record leads us to conclude that there was sufficient evidence to support the jury's findings of fact. The exaction of a licensing agreement through the bad faith assertion of trade secrets by a party in a far superior bargaining position with the intention of restraining competition and monopolizing the market is a violation of the antitrust laws. The damages awarded were a direct and foreseeable result of the anticompetitive conduct of the defendant, and, therefore, were proper.

Hence, we affirm the jury's verdict on the plaintiff's antitrust claims and the dismissal of the defendant's counterclaim. Each party shall pay its own costs on appeal.

Appendix B.

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 84-1652

CVD, INCORPORATED, ET AL.,
Plaintiffs, Appellees,

v.

RAYTHEON COMPANY,
Defendant and Third Party Plaintiff, Appellant.

ERRATA SHEET

The opinion of this Court issued on July 30, 1985, is amended as follows:

The opinion shall be amended by deleting the final sentence and substituting therefor: "The appellees are awarded costs. The district court shall award a reasonable attorneys fee for services on appeal to the plaintiffs-appellees in accordance with 15 U.S.C. § 15."

Appendix C.

UNITED STATES DISTRICT COURT
DISTRICT OF MASSACHUSETTS

CVD, INCORPORATED, et al.,
Plaintiffs,

V. CIVIL ACTION
NO. 81-2216-S

RAYTHEON COMPANY,
Defendant

ORDERS ON VARIOUS MOTIONS

May 22, 1984

SKINNER, D.J.

1. Defendant's Motions for New Trial or for Judgment Notwithstanding the Verdict.

These motions are DENIED. In my view, the verdict, as represented by the jury's answers to special interrogatories was supported by the evidence and not unconscionable. Specifically, defendant attacks so many of the jury's answers as depend on a finding of fraudulent conduct. Defendant says, correctly, that there was no evidence of reliance by the plaintiffs on the allegedly fraudulent statements. The species of fraud that was submitted to the jury under Massachusetts law was that described in *Chandler v. Sanger*, 114 Mass. 364 (1874), namely, the fraudulent assertion of a claim and threat of litigation. Reliance is not an element of this case; in the cited case, in fact, the plaintiff contested the asserted claim, as did the plaintiffs in this case.

2. Defendant's Motion for Findings Pursuant to Rule 49(a) of Fed.R.Civ.P.

I find and rule that requested findings 1, 2, 3, 4 and 7 concern issues which have been either expressly or inferentially determined by the jury's response to the special interrogatories, and I decline to make any additional findings thereon.

With respect to requests 5 and 6, defendant correctly observes that the question addressed to the jury concerning hot isostatic pressing and the use of a platinum foil wrap was cast in the present tense, and does not strictly speaking reach the dates contained in the present requests. This is only important if some material event occurred in the intervening period. Defendant asserts, and I believe correctly, that Dr. Willingham testified that between 1981 and the present time the use of platinum foil wrapping became generally known. I would still have the option, in view of this testimony, to find that the use of platinum foil wrapping was a trade secret of Raytheon at the earlier dates.

It is clear to me that the parties intended all damage questions to be submitted to the jury, and the lawyer for Raytheon forcefully argued the damages for the appropriation of this particular trade secret for the whole period of 1981 to the present, notwithstanding the present tense of the special interrogatory. The only relief open to Raytheon would thus be injunctive relief.

The very evidence which leaves open the factual question, however, makes inappropriate injunctive relief at the present time, since the use of platinum foil wrapping in hot isostatic pressing is now generally known. *Winston Research Corp. v. Minnesota Mining & Manufacturing Co.*, 350 F.2d 134, 142 (9th Cir. 1965).

So that the issue will be placed in the sharpest possible focus for purposes of appeal, I state for the record that if I were to make a finding it would be that the use of platinum foil wrapping

in the hot isostatic pressing of zinc sulfate was a trade secret of Raytheon in 1981 and that it was wrongfully appropriated by Dr. Price for the benefit of the plaintiffs, with the plaintiffs' knowledge. Since no useful purpose would be served by formally making such a finding in this case, however, I decline to do so.

/s/_____
United States District Judge

Appendix D.

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 84-1652

CVD, INCORPORATED, ET AL.,
Plaintiffs, Appellees,

v.

RAYTHEON COMPANY,
Defendant and Third-Party Plaintiff, Appellant.

JUDGMENT

Entered: July 30, 1985

This cause came on to be heard on appeal from the United States District Court for the District of Massachusetts, and was argued by counsel.

Upon consideration whereof, It is now here ordered, adjudged and decreed as follows: The judgment of the district court is affirmed.

Each party shall pay its own costs on appeal.

By the Court:

/s/ FRANCIS P. SCIGLIANO,
Clerk.

By /s/_____
Chief Deputy Clerk.

Appendix E.

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 84-1652

CVD, INCORPORATED, ET AL.,
Plaintiffs, Appellees,

v.

RAYTHEON COMPANY,
Defendant and Third-Party Plaintiff, Appellant.

Amended JUDGMENT

Entered: September 23, 1985

This cause came on to be heard on appeal from the United States District Court for the District of Massachusetts, and was argued by counsel.

Upon consideration whereof, It is now here ordered, adjudged and decreed as follows: The judgment of the District Court is affirmed. The District Court shall award a reasonable attorney's fee for services on appeal to the plaintiffs-appellees in accordance with 15 U.S.C. § 15.

Costs are awarded to plaintiffs-appellees in accordance with F.R.A.P. 39(c).

By the Court:

/s/ FRANCIS P. SCIGLIANO,
Clerk.

Appendix F.

AMENDED JUDGMENT IN A CIVIL CASE

United States District Court	DISTRICT MASSACHUSETTS
CASE TITLE CVD INCORPORATED, ET AL V. RAYTHEON COMPANY	DOCKET NUMBER 81-2216-S NAME OF JUDGE OR MAGISTRATE WALTER JAY SKINNER

☒ Jury Verdict. This action came before the Court and a jury with the judicial officer named above presiding. The issues have been tried and the jury has rendered its verdict.

☐ Decision by Court. This action came to trial or hearing before the Court with the judge (magistrate) named above presiding. The issues have been tried or heard and a decision has been rendered.

IT IS ORDERED AND ADJUDGED

1. That judgment is entered for the plaintiff CVD Incorporated in the amount of $3,180.00.

2. That judgment is entered for the plaintiffs CVD Incorporated, Robert N. Donadio, and Joseph F. Connolly for a reasonable attorney's fee in the amount of $247,269.32 and costs of $8,870.85.

3. That the defendant's counterclaim is dismissed with prejudice.

4. That the Court declares the rights of the parties to be as follows:

(a) The license agreement signed by the plaintiffs and the defendant on February 15, 1980, is invalid and unenforceable.

(b) The plaintiffs have no obligation to pay royalties to the defendant under the provisions of the license agreement signed by the plaintiffs and the defendant on February 15, 1980.

(c) As of January, 1980, the defendant had no trade secrets with respect to the chemical vapor deposition of zinc sulfide or zinc selenide.

CLERK

GEORGE F. McGRATH

DATE

7/13/84

(BY) DEPUTY CLERK

/S/

Appendix G.

UNITED STATES COURT OF APPEALS
FOR THE FIRST CIRCUIT

No. 84-1652

CVD, INCORPORATED, ET AL.,
Plaintiffs, Appellees,

v.

RAYTHEON COMPANY,
Defendant and Third-Party Plaintiff, Appellant.

Before

Campbell, *Chief Judge*,

Coffin, Bownes, Breyer and Torruella, *Circuit Judges*,
and Re, * *Judge*.

ORDER OF COURT

Entered: September 23, 1985

Upon consideration of the petition by plaintiffs-appellees and the petition for rehearing including suggestion for rehearing en banc by the appellant,

It is ordered that the petition for rehearing by the appellant is denied.

---

* The Honorable Edward D. Re, Chief Judge, United States Court of International Trade, sitting by designation.

It is further ordered that the petition for rehearing of plaintiffs-appellees is granted and the opinion shall be amended by deleting the final sentence and substituting therefor: "The appellees are awarded costs. The district court shall award a reasonable attorneys fee for services on appeal to the plaintiffs-appellees in accordance with 15 U.S.C. § 15."

The suggestion for rehearing en banc having been carefully considered by the judges of the Court in regular active service and a majority of said judges not having voted to order that the appeal be heard or reheard by the Court en banc,

It is ordered that the suggestion for rehearing en banc be denied.

By the Court:

/s/ Francis P. Scigliano
Clerk.

Supreme Court, U.S.
FILED
JAN 16 1986
JOSEPH F. SPANIOL, JR.
CLERK

(2)

No. 85-1060.

In the
Supreme Court of the United States.

OCTOBER TERM, 1985.

RAYTHEON COMPANY,
PETITIONER,

v.

CVD INCORPORATED, ET AL.,
RESPONDENTS.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT.

Brief of Respondents in Opposition.

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Questions Presented.

1. Where a company has a monopoly on the production of a product, and knows that it has no relevant trade secrets, but uses the threat of ruinous trade secret litigation to exact from a potential new competitor a licensing agreement requiring the payment of burdensome royalties for a license to use nonexistent trade secrets, may the licensing agreement be found to be a contract which unreasonably restrains trade, in violation of Section 1 of the Sherman Act?

2. In the same circumstances, may the imposition of the licensing agreement be found to be an attempt to monopolize, in violation of Section 2 of the Sherman Act?

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No. 85-1060.

In the
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CVD INCORPORATED, ET AL.,
RESPONDENTS.

ON PETITION FOR A WRIT OF CERTIORARI TO THE
UNITED STATES COURT OF APPEALS FOR THE FIRST CIRCUIT.

Brief of Respondents in Opposition.

Opinion Below.

The opinion of the court of appeals was issued on July 30, 1985, and is reported as *CVD, Incorporated* v. *Raytheon Company*, 769 F.2d 842 (1st Cir. 1985). The opinion is reproduced in an appendix to the petition (App. 1a-30a). The final sentence of the opinion was deleted, and new provisions with respect

to costs and attorney's fees were added, by an order issued on September 30, 1985 (App. 31a).

Jurisdiction.

A judgment of the court of appeals, affirming the judgment of the district court, was entered on July 30, 1985 (App. 35a). The petitioner and the respondents both filed timely petitions for rehearing. The petitioner's petition for rehearing was denied. The respondents' petition for rehearing was granted (App. 40a), and an amended judgment was entered on September 23, 1985 (App. 36a). The jurisdiction of this Court is invoked under 28 U.S.C. 1254(1).

Statement of the Case.

A. *Proceedings in the U.S. District Court.*

This action was commenced on August 28, 1981, by the filing of a complaint (P 0001)[1] in the United States District Court for the District of Massachusetts. The plaintiffs in the district court were the respondents CVD Incorporated ("CVD"), Robert N. Donadio ("Donadio") and Joseph F. Connolly ("Connolly"). (CVD is a corporation which has no parent company or subsidiaries or affiliates except two wholly owned

[1] References to the record appendix in the Court of Appeals are made by the notations "Tr." (transcripts of proceedings at trial), "E" (volumes of exhibits) and "P" (volume of pleadings), with appropriate page numbers. References to pages of the petition are made by the notation "Pet.". References to pages of the appendices to the petition are made by the notation "App.".

subsidiaries.) The defendant in the district court was the petitioner Raytheon Company ("Raytheon"), which is a Delaware corporation (Tr. 0005).

The respondents sought relief under the provisions of Sections 1 and 2 of the Sherman Act, 15 U.S.C. 1, 2, in connection with a licensing agreement (E 0256) which had been signed by the respondents and Raytheon on February 15, 1980.

The licensing agreement purported to grant to CVD a right to use unspecified trade secrets of Raytheon in connection with the production of zinc selenide ("ZnSe") and zinc sulfide ("ZnS") materials by the process of chemical vapor deposition ("cvd"), and required CVD to pay substantial royalties to Raytheon on all of its sales of those materials (15 percent of its sales of ZnSe and 8 percent of its sales of ZnS) for a period of ten years (E 0257, 0259).

In the district court Raytheon asserted a counterclaim for royalties claimed to be owed to it under the licensing agreement (P 0054) and for alleged misappropriation of trade secrets after termination of the licensing agreement (P 0055, 0057).

The case was tried in the district court from March 5, 1984, to April 12, 1984, before Judge Skinner and a jury (Tr. 0001-3262).

At trial there was evidence, which is summarized in the statement of facts below and is described in detail in the opinion of the court of appeals (App. 3a-5a, 13a-18a, 20a), that Raytheon was a very large company, with approximately 50,000 employees; that prior to the organization of CVD, Raytheon had a monopoly with respect to production of ZnSe and ZnS by cvd processes; that there were no practicable substitutes for these materials; that CVD had been organized by Donadio and Connolly, who had been employees of Raytheon, to engage in the production and sale of such materials; that Raytheon had no trade secrets relating to such materials; that Raytheon management personnel knew it had no trade secrets, but as-

serted threats of trade secret litigation against the respondents in order to compel them to enter into the licensing agreement; that the threatened litigation would have been fatal to the existence of CVD; and that CVD could not pay the royalties required by the licensing agreement and still continue in business as a competitor of Raytheon.

On April 12, 1984, the jury returned its verdict (Tr. 3403), finding in response to special interrogatories:

1. That in late 1979 and early 1980 Raytheon had no trade secrets with respect to production of ZnSe and ZnS by chemical vapor deposition (P 0140).

2. That in the fall of 1979 Raytheon had asserted the claims of trade secrets and exacted the licensing agreement from CVD in bad faith, knowing that it had no such trade secrets (P 0140), and that CVD had proved this by clear and convincing evidence (P 0140).

3. That in late 1979 and early 1980 Raytheon had "market power" with respect to both ZnS and ZnSe (P 0142-0143).

4. That the exaction of the licensing agreement was an attempt by Raytheon to restrain competition in production of ZnS and ZnSe and an attempt by Raytheon to monopolize the production of ZnS and ZnSe (P 0143).

5. That CVD had incurred damages of $1,060 (P 0143).

(In the petition Raytheon did not set forth or describe these specific findings by the jury, noting only that the jury had awarded damages of $1,060 (Pet. 2, 9) and had determined that Raytheon had no secrets (Pet. 20) and had acted in "bad faith" (Pet. 22).)

On May 22, 1984, the district court denied Raytheon's motions for a new trial or judgment n.o.v., stating that the jury's verdict, as represented by its answers to the special interrogatories, was supported by the evidence (App. 32a).

On July 31, 1984, the district court entered an amended final judgment which awarded damages of $3,180 to CVD;

awarded a reasonable attorney's fee and costs to the respondents; dismissed Raytheon's counterclaim; and declared the licensing agreement to be invalid and unenforceable (App. 37a-38a). (The date "7/13/84" at App. 38a is in error, and should be "7/31/84".)

B. *Proceedings in the Court of Appeals.*

Raytheon filed a timely notice of appeal to the United States Court of Appeals for the First Circuit (P 0009, 0244).

On July 30, 1985, the court of appeals issued its opinion, written for the court by Chief Judge Re of the United States Court of International Trade, sitting by designation, affirming the judgment of the district court in all respects (App. 1a-30a). The opinion included a thorough review and analysis of the evidence at trial (App. 3a-5a, 13a-18a, 20a), approved the ruling of the district court (Tr. 3376) which had required the respondents to show by "clear and convincing evidence" that Raytheon had asserted its claims of trade secrets with knowledge that no trade secrets existed (App. 10a), and held that the evidence was sufficient to support the jury finding that the respondents had proved this by clear and convincing evidence (App. 3a, 13a, 17a, 30a).

Raytheon's petition for rehearing was denied (App. 39a). A petition for rehearing filed by the present respondents was granted, and the opinion of the court of appeals was amended to allow costs and a reasonable attorney's fee for services on appeal (App. 40a).

C. *Statement of the Facts.*

The "Statement of Facts" set forth in the petition (Pet. 4-10) provides an account of only the evidence most favorable to the petitioner, omitting reference to most of the evidence which supports the verdict of the jury.

The evidence which supports the verdict of the jury is thoroughly reviewed in the opinion of the court of appeals (App. 3a-5a, 13a-18a, 20a). A summary of significant aspects of that evidence is set forth below.

Raytheon is a diversified industrial company, engaged in the manufacture of commercial and military electronics products, home appliances, and military weapons (Tr. 0005, 0007-0008, 0936). At the end of 1979 it had about 50,000 employees (Tr. 0318).

Chemical vapor deposition ("cvd") is a well-known industrial process in which gases or vapors are brought into a furnace where they undergo chemical reaction to form a solid material (Tr. 0198, 0203, 0273-0274, 1070, 1130, 1235, 3169-3170).

During the years 1970 to 1979 Raytheon had about 18 or 19 government contracts to do research and development work on the production of ZnS and ZnSe by cvd processes (Tr. 0174, 0193). Most of the contracts were with agencies of the U.S. Air Force. The government paid more than $10 million to Raytheon for this work (Tr. 1844). (The statement in the petition that the government at no time paid for any of this work, Pet. 5, is directly contrary to the evidence at trial.)

ZnS produced by cvd is used to make windows for infrared detecting equipment used in high-speed aircraft and missiles (Tr. 0397, 0401, 2283, 2314) and is the only known material which is suitable for that use (Tr. 0402-0403, 0995-0996, 2283, 2314).

ZnSe produced by cvd is used to make windows for certain types of high-energy lasers (Tr. 0415, 2282, 2285, 2310) and is the only known material acceptable for that use (Tr. 0095, 0422-0423, 0425, 2269, 2282, 2310).

Before CVD started in business, Raytheon was the only company which produced ZnS by cvd (Tr. 0396) and produced substantially all of the ZnSe made by cvd (Tr. 0426-0427, 0541).

Under the government R&D contracts, Raytheon was required to make detailed monthly, quarterly and final reports on the work done under the contracts (Tr. 0033, 1569-1570, 1844-1845, 3132). Copies of the reports were distributed to commercial companies which had an interest in the work (Tr. 3132), and by the end of 1979 all of the information contained in the reports was available to the general public (Tr. 0096-0097, 0252-0255, 0260-0261, 0965, 2741, 2915). The information contained in the reports was extremely detailed (E 0120-0132) and was sufficient to enable a competent engineer to design a complete cvd system of the type used by Raytheon (Tr. 1084).

Further public disclosures of the cvd work done at Raytheon were made available to the public through published articles written by Raytheon employees (E 0147, 0157), a motion picture film produced by Raytheon (Tr. 0299, 1782), and lectures and speeches given by Raytheon employees (Tr. 0293-0294).

Raytheon maintained an elaborate computerized system for identifying technical information which was designated to be retained as "trade secrets" (Tr. 0075-0076), and none of the information relating to production of ZnS or ZnSe by cvd ever was so designated for trade secret protection (Tr. 0060, 0081-0082).

Raytheon also had a written policy that any engineering drawings containing confidential information should be marked with a specific restrictive legend (Tr. 0030, 0032, 1857-1858, 3152). By the end of 1979 Raytheon had about 2,000 engineering drawings relating to the equipment used to make ZnS and ZnSe by cvd (Tr. 0139, 0319, 2559, 2843-2844), and none of these drawings ever had been marked with any sort of restrictive legend (Tr. 0219, 1033, 2573, 2849).

Raytheon had thousands of documents relating to the production of ZnS and ZnSe by cvd, but at trial was unable to produce

even one document which indicated that any of the relevant information was to be treated as secret or confidential (Tr. 2845-2850).

In short, there was overwhelming evidence, most of which came from the testimony of Raytheon management employees and Raytheon's own documents, to show that none of the information relating to production of ZnS and ZnSe by cvd ever had been treated as secret in any way, and that there had been widespread public dissemination of the information.

Donadio and Connolly were Raytheon employees who had worked on the production of ZnS and ZnSe and had participated in the government contract R&D work described above (Tr. 0236, 0244, 1029-1032). In October, 1979, they informed their supervisor at Raytheon that they were considering leaving Raytheon to start a new company to make ZnS and ZnSe by cvd (Tr. 0328-0329, 2830-2831).

Raytheon immediately threatened to sue them and their new company for misappropriation of "trade secrets" if they went into business without a license from Raytheon (Tr. 0089, 0092-0093, 0331-0332, 1044, 1812-1813, 1849, 2834). They protested that there were no trade secrets, that all of the Raytheon work on cvd of ZnS and ZnSe had been paid for by the government, and that all of the relevant technology had been published in the government reports (Tr. 0331, 1044, 1812, 1849, 1852), but Raytheon persisted in its demands for a license agreement. After Raytheon told them that they now would have to find other employment, whether or not they went into business for themselves (Tr. 0347-0348, 1092, 2832), they organized the respondent CVD on January 11, 1981 (Tr. 0363).

Donadio and Connolly retained a lawyer named Jerry Cohen to represent them and CVD (Tr. 0344-0345, 1619). Cohen asked Raytheon's lawyer for a list of the alleged trade secrets, and Raytheon refused to provide him with one (Tr. 1826). Ray-

theon's lawyer mentioned a few items which Raytheon claimed to be trade secrets, but Cohen showed him that all of these items had been published in the government reports (Tr. 0346, 1050-1051).

Raytheon insisted that it would sue Donadio, Connolly, and CVD for misappropriation of trade secrets unless they signed a license agreement under which CVD would be required to pay royalties to Raytheon on all sales of ZnS and ZnSe for a period of ten years, whether or not CVD ever used any trade secret of Raytheon to produce the materials (Tr. 1820, 1875-1876, 1906-1907).

Faced with the threat of litigation which would have been fatal to the new company, even though the trade secret claims were completely baseless, the respondents signed the license agreement ("voluntarily" according to the petitioner, Pet. 4, 7, 11, 31) on February 15, 1980 because they had no alternative (Tr. 0331-0332, 0357-0358, 1052).

In March of 1980 CVD started in business with four employees: Donadio, his wife and son, and Connolly (Tr. 0379-0383). It began making cvd materials in June of 1980 (Tr. 0379). CVD quickly found that it could not survive if it had to pay the royalties (Tr. 0369-0370, 0948-0949). At trial Raytheon presented evidence that CVD would have been required to pay more than $1.5 million in royalties during its first five years of operations if it had complied with the provisions of the licensing agreement (E 0684-0685), which called for payments of 15 percent of all sales of ZnSe and 8 percent of all sales of ZnS (E 0269).

CVD attempted without success to renegotiate the terms of the licensing agreement (Tr. 0469-0471), and then commenced this action on August 28, 1981 (P 0002). On October 19, 1981, Raytheon terminated the license agreement because CVD had not paid the royalties (Tr. 0161, 0472, 0887).

Reasons for Denying the Writ.

The decision of the court of appeals does not conflict with any decision of this Court, or with any decision of another court of appeals, or with any decision of a state court of last resort.

The issues presented by Questions I, II, and III of the petition were not argued to the court of appeals or decided by the court of appeals. The issue presented by Question IV was not decided adversely to the petitioner. The issue presented by Question V was decided in accordance with prior decisions of this Court.

This is not an exceptional case in which issues not decided by the court of appeals should be considered by this Court. The facts of this case are unusual, so that review of the case by this Court would not provide useful guidance to courts to aid in their disposition of other cases.

I. Questions Presented by the Petition Were Not Presented to the Court of Appeals.

The established practice of this Court is to decline to consider questions which were not argued to the court below or decided by the court below, except in exceptional circumstances. *See, e.g., Miree* v. *DeKalb County, Georgia*, 433 U.S. 25, 34 (1977); *Adickes* v. *S.H. Kress & Co.*, 398 U.S. 144, 147 n.2 (1970); *Lawn* v. *United States*, 355 U.S. 339, 362 n.16 (1958); *Old Jordan Mining and Milling Co.* v. *Societe Anonyme des Mines*, 164 U.S. 261, 264-265 (1896).

This is a sound practice, because this Court should not be burdened with issues which the parties deemed of insufficient importance to raise in the court below and which are presented to this Court as an afterthought.

Three of the five questions presented by the petition were not argued by the petitioner in its briefs filed in the court of appeals, and another was mentioned only in a footnote in its reply brief. (The respondents have requested that the briefs filed in the court of appeals be certified and transmitted to this Court in accordance with Rule 19.1.)

Questions I and II suggest that the decision below conflicts with the *Noerr-Pennington* doctrine.[2] This issue was not argued to the court of appeals, but was noted in the opinion below (App. 10a).

Question III asserts that the court of appeals erred in failing to make an "independent" review of the record, of the type required on the issue of actual malice in libel cases. This issue is raised for the first time by the petition.

Question IV suggests that the *Walker Process*[3] doctrine should not be applied to a case involving trade secrets. The petitioner suggested in a footnote in its reply brief filed in the court of appeals (Raytheon's Reply Brief, page 19, n.19) that cases involving fraud in obtaining a patent are distinguishable from the present case ("obviously present a different situation"). The court of appeals agreed with that proposition (App. 7a, 8a), but noted that the patent cases provide some analogy (App. 7a). The petitioner did not argue to the contrary in the court of appeals.

Question V presents the issue of whether an employee can enter into a trade secret license agreement with his former employer and later assert that the license agreement violates the provisions of Section 1 of the Sherman Act. This issue was argued to the court of appeals, which decided that execu-

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[2] *Eastern Railroad Presidents Conference* v. *Noerr Motor Freight, Inc.*, 365 U.S. 127 (1961); *United Mine Workers* v. *Pennington*, 381 U.S. 657 (1965).

[3] *Walker Process Equipment, Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965).

tion of such an agreement did not preclude an antitrust action based upon it, following the decision of this Court in *Perma Life Mufflers, Inc.* v. *International Parts Corp.*, 392 U.S. 134 (1968), and noting that the present case presented an even "more sharply drawn example of overreaching" (App. 21a).

Question V of the petition is the only question which was argued by the petitioner in the court of appeals and was decided adversely to the petitioner. As will be shown below, at pages 15-16, the decision of the court of appeals on this issue was entirely consistent with prior decisions of this Court.

II. The Decision of the Court of Appeals Does Not Conflict with any Decision of this Court.

The decision of the court of appeals does not conflict with any decision of this Court and is consistent with prior decisions of this Court in all respects.

A. *There Is No Conflict with* Bose *v.* Consumers Union.

The petitioner contends that the court of appeals failed to comply with the requirements of the *de novo* review doctrine of *Bose Corporation* v. *Consumers Union of U.S., Inc.*, 466 U.S. 485, 80 L.Ed.2d 502 (1984). This issue is raised for the first time by the petition, and was not argued to the court of appeals.

In *Bose* this Court held that in a libel case in which "actual malice" of the defendant is in issue, an appellate court should make an "independent" or *de novo* review of the record to determine whether actual malice is established by clear and convincing proof. 80 L.Ed. at 2d at 523. The requirement of "independent" review was specifically limited to the issue of actual malice. 80 L.Ed.2d at 526 n.31.

While it is at least highly doubtful that the principles of *Bose* should be applied to an antitrust case, there is no occasion to decide that question here. The court of appeals made an extremely thorough review of the evidence in the record (as evidenced by its opinion, App. 3a-5a, 13a-18a, 20a) to determine whether there was clear and convincing evidence to support the finding of the jury (P 0140) that Raytheon had asserted claims of trade secrets, knowing that it had no such trade secrets.

The court of appeals decided that the respondents properly were required ". . . to prove, in addition to the other elements of an antitrust violation, by clear and convincing evidence, that the defendant asserted trade secrets with the knowledge that no trade secrets existed." (App. 10a.)

The jury found that the respondents had proved this by clear and convincing evidence (P 0140).

After an extraordinarily thorough review of the record, the court of appeals concluded that "Our review of the record leads us to conclude that there was sufficient evidence to support the jury's findings of fact." (App. 30a.) Thus, the court of appeals concluded that there *was* clear and convincing evidence that Raytheon had asserted claims of trade secrets with the knowledge that no such trade secrets existed.

Obviously the fact that there was some evidence to support the contentions of the petitioner (Pet 25-26) could not preclude the jury from finding that the overwhelming evidence to the contrary, described at pages 6-9 above, was "clear and convincing".

The petitioner's argument that the court of appeals "refused to make an independent review" (Pet. 24) is squarely disproved by the opinion below.

B. *There Is No Conflict with Bill Johnson's Restaurants.*

The petitioner suggests a need for "some objective recognized standard or rule of law" to determine when litigation or threatened litigation is baseless (Pet. 21), asserts that the court of appeals "neglected to prescribe any basis whatsoever for an objective determination of baseless conduct" (Pet. 22), and suggests that the appropriate standard is to be found in *Bill Johnson's Restaurants, Inc.* v. *National Labor Relations Board*, 461 U.S. 731 (1983) (Pet. 21).

This issue was not raised in the court of appeals, but in fact the court of appeals did prescribe a specific standard which is entirely consistent with the decision in *Bill Johnson's Restaurants*.

The standard is a strict one. The plaintiff is required to prove "by clear and convincing evidence, that the defendant asserted trade secrets with the knowledge that no trade secrets existed" (App. 10a). It is difficult to imagine a standard which could be more favorable to a defendant who has asserted baseless trade secrets claims against a potential new competitor in an attempt to restrain trade and monopolize.

In *Bill Johnson's Restaurants* the Court indicated that a suit allegedly brought in retaliation against an employee would not be a "sham", and therefore should not be enjoined, if it "raises genuine issues of material fact." 461 U.S. at 746.

In the present case the jury in effect found that any trade secrets case which might have been brought against the respondents by Raytheon would not have presented any "genuine issues of material fact", because the evidence was clear and convincing that Raytheon had no trade secrets and knew that it had no trade secrets.

The standard of proof imposed by the district court and approved by the court of appeals (App. 10a) was entirely consistent with the standard of *Bill Johnson's Restaurants*. The

jury was required to determine whether Raytheon's claims of trade secrets presented any *genuine* issue of material fact, and found that they did not. The requirement that this be proved by clear and convincing evidence resulted in a standard of proof even stricter than that of the case on which the petitioner relies.

C. *The Decision Below Is Consistent with Decisions of this Court in Analogous Cases.*

Question V of the petition is the only question which was argued to the court of appeals and decided adversely to the petitioner.

The question is rather awkwardly phrased, but essentially is whether a party can enter into a licensing agreement and later contend that agreement violates Section 1 of the Sherman Act.

The answer clearly is "yes". The law is settled that a party to an agreement may obtain relief under Section 1 of the Sherman Act if the agreement imposes an unreasonable restraint on trade, because the provisions of the antitrust laws override any conflicting rules of private contract law.

Perma Life Mufflers, Inc. v. *International Parts Corp.*, 392 U.S. 134, 140, 142 (1968) (dealer franchising agreement); *Simpson* v. *Union Oil Co.*, 377 U.S. 13, 18 (1964) (consignment agreement); *Sola Electric Co.* v. *Jefferson Electric Co.*, 317 U.S. 173, 177 (1942) (patent license).

In *Sola* the Court said:

> Local rules of estoppel which would fasten upon the public as well as the petitioner the burden of an agreement in violation of the Sherman Act must yield to the Act's declaration that such agreements are unlawful, and to the public policy of the Act which in

> the public interest precludes the enforcement of such unlawful agreements.

317 U.S. at 177.

III. The Decision of the Court of Appeals Does Not Conflict with any Decision of another Court of Appeals.

The decision of the court of appeals in this case is entirely consistent with the decisions of other courts of appeal in comparable cases.

A. & E. Plastik Pak Co., Inc. v. *Monsanto Co.*, 396 F.2d 710 (9th Cir. 1968), involved a similar factual situation. After a Monsanto patent on a particular type of plastic sheet had expired, A. & E. hired a Monsanto employee who was familiar with the technology used to make the sheet. Monsanto threatened to sue for misappropriation of trade secrets, and A. & E. agreed to take a license to use the technology, in order to avoid litigation. The license required the payment of royalties for ten years. A. & E. later commenced an antitrust action against Monsanto, alleging that Monsanto had asserted its claims of trade secrets in bad faith, knowing that the technology was not secret, for the purpose of eliminating competition and attempting to monopolize. The court of appeals ruled that if there were no trade secrets, there was no legitimate basis for the restraints on competition imposed by the license agreement, and that A. & E. had asserted a proper claim under the antitrust laws. 396 F.2d at 716.

Antitrust cases based upon the assertion of patent infringement claims where the patent owner knows the patent to be invalid also are consistent in principle with the decision below.

See, e.g., Kearney & Trecker Corp. v. *Cincinnati Milacron Inc.*, 562 F.2d 365, 374 (6th Cir. 1977); *Handgards, Inc.* v. *Ethicon, Inc.*, 601 F.2d 986, 996 (9th Cir. 1979), *cert. denied*, 444 U.S. 1025 (1980) ("clear and convincing evidence" required) and 743 F.2d 1282, 1294 (9th Cir. 1984), *cert. denied* ___ U.S. ___ (1985) (evidence warranted jury verdict for plaintiff).

IV. This Is Not an Appropriate Case in which to Define the Scope of the "Sham Exception" to the *Noerr-Pennington* Doctrine.

In *Eastern Railroad Presidents Conference* v. *Noerr Motor Freight, Inc.*, 365 U.S. 127, 144 (1961), the Court noted that conduct of a defendant which ostensibly was directed toward influencing government action would not be exempt from the antitrust laws if the conduct was a "mere sham"; and in *California Motor Transport Co.* v. *Trucking Unlimited*, 404 U.S. 508, 513 (1972), the Court observed that "a pattern of baseless repetitive claims" might fall within the "sham exception" to the *Noerr-Pennington* doctrine.

The petition points out that some of the courts of appeal have expressed differing views as to whether a single baseless suit can fall within the "sham exception" (Pet. 14-19), and suggests that the issue should be resolved by review of the present case.

The Court has declined to review a number of cases in which the issue could have been considered (Pet. 19), and this is not an appropriate case in which to consider the issue, for the reasons stated below.

A. *The Issue Was Not Argued to the Court of Appeals and Was Not Decided by the Court of Appeals.*

The briefs filed in the court of appeals did not argue the issue, and although the court of appeals mentioned the *Noerr-Pennington* doctrine in its opinion (App. 10a), it did not purport to decide whether a single baseless suit would be within the "sham exception".

The decision of the court of appeals is concisely summarized in the concluding section of its opinion (App. 30a):

> The exaction of a licensing agreement through the bad faith assertion of trade secrets by a party in a far superior bargaining position with the intention of restraining competition and monopolizing the market is a violation of the antitrust laws.

B. *There Was No Suit by the Petitioner.*

Since Raytheon did not commence any trade secret litigation against the respondents, one can only speculate as to what Raytheon would have done if the respondents had refused to sign the licensing agreement. Raytheon might have commenced a single baseless suit against one or more of the respondents, or it might have commenced multiple baseless suits against each of the respondents and against their suppliers and customers, or it might even have commenced no suit at all. This Court should not attempt to define the scope of the "sham exception" on the basis of hypothetical and conjectural factual situations.

C. *The Licensing Agreement Was an Unreasonable Restraint of Trade.*

The licensing agreement required CVD to pay massive royalties to Raytheon (estimated by Raytheon at $1.5 million dollars for the first five years of operations of CVD) (E 0684-0685) for a license to use non-existent trade secrets. The royalty rates were set at such high levels by Raytheon that CVD could not pay the royalties and survive as a competitor of Raytheon (Tr. 0369-0370, 0948-0949).

Section 1 of the Sherman Act, 15 U.S.C. 1 (Pet. 3), provides that "Every *contract* . . . in restraint of trade or commerce among the several States . . . is declared to be illegal."

The licensing agreement was a contract which unreasonably restrained trade, without regard to the overreaching conduct of the petitioner which enabled it to exact the agreement from the respondents.

D. *The Licensing Agreement Would Have Been Invalid and Unenforceable Even if It Did Not Violate the Antitrust Laws.*

While the imposition of the licensing agreement upon the respondents was found to violate the antitrust laws, it is clear as a matter of law that the licensing agreement would have been invalid and unenforceable even if there had been no violation of the antitrust laws.

The licensing agreement purported to grant a license to use "trade secrets" which the jury found did not exist (P 0140). Accordingly, as the court of appeals noted, "there was no valid consideration for CVD's promise to pay royalties" (App. 24a).

Where there is a total failure of consideration, under applicable Massachusetts law such an agreement cannot be enforced by the licensor. *Frequency Electronics, Inc.* v. *National Radio*

Co., Inc., 422 F.Supp. 609, 611, 613 (S.D.N.Y. 1975), *affirmed*, 546 F.2d 497 (2d Cir. 1976) (note given in payment for invalid patent cancelled, applying Massachusetts law); *Harlow* v. *Putnam*, 124 Mass. 553, 556 (1878) (licènse under a void patent; no consideration for promise by licensee).

V. The Facts of this Case Are So Unusual that Review of this Case Would Not Provide Useful Guidance to other Courts.

Review of the court of appeals decision by this Court would be unlikely to provide useful guidance for the benefit of federal or state courts in other cases.

The principles of law applied by the district court and the court of appeals are well established, and the factual situation presented by this case is unlikely to recur with any frequency.

The case is unusual, and perhaps unique, in that it arises from a licensing agreement (E 0256) which purported to grant a license to use "trade secrets" but did not specify or define the "trade secrets" which were the subject of the license (E 0257).

During the discussions leading up to execution of the licensing agreement, Raytheon refused to provide the respondents with any comprehensive list of the alleged trade secrets (Tr. 1826). The few items which its attorney did mention as possible trade secrets were shown to have been published in the government reports (Tr. 0346, 1050-1051).

Any potential licensor of trade secrets should be willing to specify what it is licensing — if in fact it has anything to license. Raytheon's refusal to specify the alleged trade secrets underlying its threats of litigation was an extraordinary course of conduct, and one which is not likely to be encountered in other cases. Its refusal to specify the alleged trade secrets was a

clear indicator of the fraudulent intent of its representatives and of what the courts of appeal aptly characterized as a "sharply drawn example of overreaching" (App. 231a).

Conclusion.

For the reasons stated above, the petition should be denied.

Respectfully submitted,

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FILED
JAN 28 1986
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No. 85-1060.

In the
Supreme Court of the United States.

OCTOBER TERM, 1985.

RAYTHEON COMPANY,
PETITIONER,

v.

CVD, INCORPORATED, ROBERT DONADIO
AND JOSEPH CONNOLLY,
RESPONDENTS.

Petitioner's Reply to Respondents' Brief in Opposition to Petition for Writ of Certiorari.

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No. 85-1060.

In the Supreme Court of the United States.

OCTOBER TERM, 1985.

RAYTHEON COMPANY,
PETITIONER,

v.

CVD, INCORPORATED, ROBERT DONADIO
AND JOSEPH CONNOLLY,
RESPONDENTS.

Petitioner's Reply to Respondents' Brief in Opposition to Petition for Writ of Certiorari.

I. THE ISSUES RAISED IN THIS COURT WERE EITHER RAISED BELOW OR RESULTED FROM THE NOVEL OPINION OF THE COURT OF APPEALS.

Respondents in their brief in opposition to the petition for writ of certiorari (Res. Br. 10)[1] suggest that certain issues in the petition were not raised in the court below and therefore this Court should not grant the writ.

[1] References in the Brief are the same as in the Petition except for the added reference to respondents' Brief in this Court (Res. Br.).

Respondents' argument ignores the fact that the district court's legal analysis of the antitrust issue depended on an interpretation of state law. Petitioner's brief on appeal to the Court of Appeals addressed the state law issue. The Court of Appeals, however, did not discuss the district court's analysis. Instead, the Court of Appeals formulated a new theory of action based on federal antitrust law and thereby invalidated the license agreement. Critical First Amendment issues arose from that decision. It is therefore appropriate for this Court to grant the writ. See e.g. *Berkemer* v. *McCarty*, 468 U.S. , 82 L.Ed.2d 317, 337, 104 S.Ct. 3138 (1984), *Carlson* v. *Green*, 446 U.S. 14, 64 L.Ed.2d 15, 100 S.Ct. 1468 (1980), *Youakim* v. *Miller*, 425 U.S. 231, 47 L.Ed.2d 701, at 705, 96 S.Ct. 1399 (1976).

The issue in the trial was the validity of the license agreement executed on February 15, 1980. Respondents contended that the license agreement was invalid and therefore a restraint on trade because they entered the agreement as a result of duress and coercion. The district judge, instead, instructed the jury as follows:

> However, the license agreement was an agreement resolving a disputed claim and is enforceable for its term if it was made in good faith, even though you find that Raytheon's claim to trade secrets was incorrect. . . That license agreement is enforceable because the consideration for it was forbearance to sue. There is no evidence of duress or coercion sufficient in law to avoid that contract.

(Tr. 3373-3374.)

The district judge ruled on the supposed basis of an old Massachusetts case, *Chandler* v. *Sanger*, 114 Mass. 364 (1874), that if the jury found that petitioner misrepresented it

had trade secrets, the jury could invalidate the license agreement even though the individual respondents did not rely on petitioner's representations. The district judge in a post-trial memorandum denying judgment notwithstanding the verdict said: "Defendant [Petitioner] says, correctly, that there was no evidence of reliance by the plaintiffs on the allegedly fraudulent statements. The species of fraud that was submitted to the jury under Massachusetts law was that described in *Chandler* v. *Sanger*, 114 Mass. 364 (1874), namely, the fraudulent assertion of a claim and threat of litigation. Reliance is not an element of this case. . ." (App. C, at 32a).

The district judge was mistaken. *Chandler* v. *Sanger*, 114 Mass. 364 (1874) does require reliance. It is not an exception to the Massachusetts' rule that a fraudulent misrepresentation sufficient to invalidate a contract must be relied upon by the injured party. *J. Abrams & Co.* v. *Clark*, 298 Mass. 542 (1937), *Liberty Leather Corp.* v. *Callum*, 653 F.2d 694 (1st Cir. 1981).

The First Circuit recognized that the district judge was in error in his reading of *Chandler* v. *Sanger*. The Court of Appeals said: "Since the plaintiffs [respondents] did not rely on any of Raytheon's [petitioner's] misstatements, and entered into the agreement while represented by competent counsel, Raytheon contends that plaintiffs are precluded from relief. In an action to rescind the contract or recover damages on a theory of fraud, under Massachusetts law this contention might have merit." (App. A, at 18a, 19a.) The Court of Appeals neither cited the *Chandler* case nor discussed the district court's analysis.

Instead, the Court of Appeals for the first time formulated a rule that the assertion of trade secrets with the knowledge that none exist, coupled with the threat to institute litigation in order to exact a licensing agreement, violates the antitrust laws (App. A, at 10a, 11a). This was a novel rule.

The Court of Appeals' holding goes far beyond even the rule espoused by respondents. In their brief in the Court of Appeals, relying on *Walker Process Equipment Inc.* v. *Food Machinery & Chemical Corp.*, 382 U.S. 172 (1965), respondents articulated the rule applicable to this case as: "The assertion of unfounded claims in bad faith, knowing that there is no basis for such claims, may violate federal antitrust law if it is done in an attempt to restrain interstate commerce or to monopolize."

In petitioner's petition for rehearing (including suggestion for rehearing en banc), petitioner pointed out that the Court of Appeals' holding brought directly into play this Court's decision in *Bose Corporation* v. *Consumers Union of United States*, 466 U.S. 485 (1984). The Court of Appeals denied the petition without explanation (App. G at 39a).

Once the Court of Appeals ruled, as it did, that "the threat of unfounded trade secrets litigation in bad faith is sufficient to constitute a cause of action under the antitrust laws" (App. A at 11a) and cited *Eastern Railroad Presidents Conference* v. *Noerr Motor Freight*, 365 U.S. 127 (1961), and *United Mine Workers* v. *Pennington*, 381 U.S. 657 (1965), the decision raised First Amendment issues for the first time in the litigation. Thus, petitioner in its petition for rehearing contended that if the Court of Appeals was for the first time going to formulate such a rule, the Court of Appeals had a duty as a matter of constitutional law under *Bose Corporation* v. *Consumers Union of United States*, 466 U.S. 485 (1984), to make an independent review of the record to determine if there was clear and convincing evidence that petitioner knew, when it told respondents that it might have to go to court, it had no trade secrets.

Contrary to the assertion by respondents (Res. Br. 13) that the "court of appeals made an extremely thorough review of the evidence in the record," the Court of Appeals did not and

does not profess to have made an independent review consistent with *Bose*.

Petitioner in its petition for rehearing to the Court of Appeals noted that all the Court did was accept respondents' statement of the evidence and from that conclude that the jury could have inferred bad faith. As petitioner advised the Court, respondent's statement of the evidence was beside the point. It ignored uncontroverted evidence by two of the world's leading experts in the field that there were critical engineering designs and details that were clearly trade secrets.[2] The Court of Appeals never reviewed the record independently to determine if there was clear and convincing evidence that what petitioner said were trade secrets were not. Instead, the Court of Appeals recited evidence offered by respondents that had nothing whatsoever to do with what petitioner considered were trade secrets.

Petitioner observed in its petition for rehearing that all the panel of the Court of Appeals had done was recite facts from which the jury "could have inferred" an intent "to restrain competition." (App. A at 16a, 17a.) But the Court of Appeals did not in accordance with *Bose* affirmatively identify clear and convincing evidence that petitioner knew its claimed trade secrets were not trade secrets under Massachusetts law.

II. The License Agreement did Not Require CVD Inc. to Pay Unreasonable Royalties.

Respondents contend that the license agreement required CVD, Inc. to pay Raytheon "massive royalties." (Res. Br. 19.)

[2] Respondents state that Raytheon's reports to the government contained details "sufficient to enable a competent engineer to design a complete cvd system of the type used by Raytheon," and refer to Tr. 1084. In fact, the transcript reference is to the cross-examination of respondent Joseph Connolly who conceded that the schematic diagrams in the reports were insufficient to permit the design of the critical components of Raytheon's system (Tr. 1085-1088).

In fact, respondents projected sales for CVD totalling in the five year period in excess of $7,000,000, and after accounting for royalties paid to petitioner of about $1,000,000, a net profit before income taxes of about $2,000,000. (E. 509.)

The district judge ruled that the royalty rate was reasonable (Tr. 3379). There was no evidence that the rate was inconsistent with standard and accepted royalties in the industry.

III. The License Was an Agreement to Settle a Dispute Out of Court.

Respondents contend (Res. Br. 19) that there was no consideration for the license agreement and in any event, the agreement purported to license non-existent trade secrets (Res. Br. 20).

The district judge, however, ruled that there was valid consideration (Tr. 3373-3374). Respondents did not cross-appeal that ruling. The comment by the Court of Appeals that there was "no valid consideration" (App. A. at 24a) is a clear example of the Court of Appeals," willingness to accept without critical examination the bad faith finding: If the jury found bad faith, forbearance to sue would be forbearance from a bad faith suit and therefore there was no consideration. The rationale is not logical. The cart is before the horse.

In addition, the agreement did not license non-existent trade secrets. Because the existence and nature of trade secrets was in dispute, the agreement by its terms was a settlement of that dispute:

> "Whereas, LICENSOR and the Principals, now joined by LICENSEE, *have a dispute over the extent and scope of LICENSOR's Trade Secrets* and/or the inevitability of use thereof in LICENSEE's principal

> initial business activity the design, development and manufacture of Material and without conceding the correctness of any parties' position in this dispute and without prejudice to any rights of the parties in the event the Agreement is terminated before its normal expiration under subsection 6.01 *are willing to settle such dispute* under the terms and condition hereinafter stated."

(E. 257) (emphasis added).

IV. This Case Presents Issues of Material Importance Concerning Antitrust and Trade Secret Law and the Policy in Favor of Settlement of Disputes.

Contrary to respondent's suggestion (Res. Br. 20), the facts in this case are a common place occurrence in the relationship of a high technology employer and departing engineers who may be privy to confidential information and trade secrets. If employers cannot resolve disputes about the nature and extent of trade secret information possessed by a departing employee, without the threat of antitrust litigation based on an after-the-fact assessment of whether the employer had trade secrets, the rule in this case will substantially hinder out-of-court settlements.

Petitioner believes that this case involves substantial issues of antitrust policy and respectfully suggests to this Court that

the Court request the views of the Antitrust Division of the United States Department of Justice.

Respectfully submitted,

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